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CLICK HERE FOR AUDITOR-CONTROLLER'S REPORT DATED JUNE 13, 2012

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# COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 525 LOS ANGELES, CALIFORNIA 90012-3873 PHONE: (213) 974-8301 FAX: (213) 626-5427

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS JOHN NAIMO JAMES L. SCHNEIDERMAN

JUDI E. THOMAS CHIEF DEPUTY

June 13, 2012

TO:

Supervisor Zev Yaroslavsky, Chairman

Supervisor Gloria Molina

Supervisor Mark Ridley-Thomas

Supervisor Don Knabe

Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe

Auditor-Controller

SUBJECT:

FIRST STATUS REPORT - BOARD ORDERED REVIEWS OF THE

and J. Waterobe

OFFICE OF THE ASSESSOR (Board Agenda Item 36-A, April 10,

2012)

On April 10, 2012, the Board of Supervisors instructed the Auditor-Controller (A-C) to conduct reviews of four areas in the Office of the Assessor, and to provide monthly reports to the Board on the progress of those reviews. The following is a summary of the status of each review area through June 12, 2012:

**Area 1:** Review Assessor's Fiscal Year 2012-13 roll forecast, including the methodology used. Retain an outside consultant to perform independent analysis.

Status: Completed. A-C contracted with the Rosenow Spevacek Group, Inc. (RSG) to review the Assessor's forecast and methodology. RSG presented their analysis to your Board on May 15, 2012, and provided recommendations to improve the accuracy of Assessor's future forecasts.

**Area 2:** Conduct a comprehensive management audit of the Assessor's operations to determine whether the Assessor's Office is appropriately and efficiently administering the County's property assessment and appeals functions.

**Status:** On June 11, 2012, the A-C contracted with Strategica, Inc. to conduct the management audit. Strategica has started the engagement, and expects to issue their independent report in the next few months.

Board of Supervisors June 13, 2012 Page 2

**Area 3:** Conduct a review of the Assessor's fiscal/business operations and controls.

**Status:** A-C's Audit Division staff is reviewing the Assessor's fiscal operations. They are also reviewing controls over the Assessor's secured and unsecured property tax systems. We expect to issue our reports on the Assessor's fiscal operations and secured property tax system in mid-August. Additionally, we expect to issue the report on the unsecured system in October.

Area 4: As requested by various cities and taxing entities, review properties that had a 20% reduction in value from December 2010 to January 2012 to determine the appropriateness of the reductions.

Status: On June 5, 2012, the A-C issued a letter to all taxing entities in the County of Los Angeles, see attached, informing them that your Board has instructed the A-C to review properties whose appraised values decreased by 20% or more. To date, the A-C has identified the properties, and is now reviewing the documentation for the decreases. We expect to issue a preliminary report by September 1st.

We will continue to keep your Board, the Chief Executive Office, and Assessor management updated on the progress and results of our reviews.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 974-8303.

WLW:JLS

#### Attachment

c: William T Fujioka, Chief Executive Officer George Renkei, Chief of Staff, Assessor Sachi A. Hamai, Executive Officer, Board of Supervisors Public Information Office Audit Committee



# COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 525 LOS ANGELES, CALIFORNIA 90012-3873 PHONE: (213) 974-8301 FAX: (213) 626-5427

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS JOHN NAIMO JAMES L. SCHNEIDERMAN

JUDI E. THOMAS CHIEF DEPUTY

June 5, 2012

#### ALL TAXING ENTITIES IN THE COUNTY OF LOS ANGELES

Based on recent allegations of improprieties in the Los Angeles County Assessor's Office, some taxing entities, including the City of Los Angeles, have asked the County Board of Supervisors (Board) to determine if any property values were improperly decreased in their tax areas. Improper decreases in property values can impact revenue to the taxing entities.

In response to these requests, the Board instructed the Auditor-Controller to review the Assessor's valuations for properties whose appraised values decreased by 20% or more from December 2010 to January 2012. We are currently identifying properties that had a 20% or greater decrease in value, and will review the Assessor's documentation justifying such reductions.

When applicable, we will obtain independent third-party appraisers to review the Assessor's valuations for a sample of properties. Further, if we identify any inappropriate property value reductions, we will coordinate with the District Attorney for further action.

If you have any specific properties within your taxing areas you would like us to include in our review, please contact Susan Linschoten at (213) 974-8593 or send information on the property (including the property address and the reason for your concern) to slinschoten@auditor.lacounty.gov by June 15, 2012.

Very truly yours,

Wendy L. Watanabe Auditor-Controller

WLW:JET:JLS:SJL

c: Each Supervisor
 William T Fujioka, Chief Executive Officer
 Steve Cooley, District Attorney
 George Renkei, Assistant Assessor
 Sachi A. Hamai, Executive Officer, Board of Supervisors



#### COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 525 LOS ANGELES, CALIFORNIA 90012-3873 PHONE: (213) 974-8301 FAX: (213) 626-5427

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS JOHN NAIMO JAMES L. SCHNEIDERMAN

January 3, 2013

TO:

Supervisor Mark Ridley-Thomas, Chairman

Supervisor Gloria Molina Supervisor Zev Yaroslavsky Supervisor Don Knabe

Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanable Auf J. Watanble Auditor-Controller

SUBJECT: OFFICE OF THE ASSESSOR - MANAGEMENT AUDIT (Board Agenda

Item 36-A, April 10, 2012)

At the April 10, 2012 meeting, your Board instructed the Auditor-Controller (A-C) to review four areas within the Assessor's Office (Assessor's): 1) review their Fiscal Year (FY) 2012-13 property roll revenue forecast; 2) conduct a comprehensive management audit; 3) conduct a review of their fiscal/business operations and controls; and 4) review properties that had a 20% reduction in value from December 2010 to January 2012 to determine appropriateness. Area 1 review of the Assessor's FY 2012-13 roll forecast was completed and presented to your Board on May 15, 2012. The Area 3 review of the fiscal/business operations is complete and we will issue the final report in two weeks. The Area 4 review of properties with value reductions in excess of 20% review is ongoing and we will provide a report to your Board upon completion.

The Area 2 of a comprehensive management audit is complete and we are attaching the final report, see Attachment I. We contracted with Strategica, Inc. (Strategica or Consultant) to evaluate Assessor's operations, policies and procedures, and determine whether the Assessor's was appropriately and efficiently carrying out its main mission in administering the County's property valuation and assessment appeals functions. Further, the Consultant was charged to conduct benchmarking and best practices analysis and to make recommendations to improve the Assessor's effectiveness and efficiency.

Strategica is scheduled to present your Board its findings at the January 8, 2013 Board of Supervisors' meeting. The following is a summary of the results of Strategica's review.

#### **Summary of Findings**

Strategica concluded that the Assessor's does not appear to be understaffed. However, the audit identifies a number of areas where the Assessor's needs to take action to improve, including its organizational structure, integrity, agency scope, information technology (IT) and workload management, assessment appeals and decline in value processes, and valuation methods. These and other areas are discussed in more detail below, and in Strategica's attached report.

#### **Organizational Structure**

#### **Management Qualifications**

Los Angeles County Assessor is an elected position, and is not subject to the same selection requirements as other department heads in the County. As a result, an Assessor may be elected without the supervisory or managerial experience to lead an organization of over 1,400 employees. The current structure has worked well under previous Assessors, most of whom had years of managerial experience in the Assessor's before they were elected.

Strategica noted that the Assessor's structure is not designed to ensure continuity of their operations during changes in the elected administration of the Assessor. The Consultant recommends that the Assessor's retain a permanent Chief Deputy with substantial assessor experience, expertise, and managerial competence to ensure institutional knowledge and continuity over the operations when a new Assessor is elected. The Consultant also recommends amending the County Charter to provide the Board of Supervisors the authority to appoint, or the authority to approve the appointment, of a Chief Deputy. Further, the Consultant recommends the Assessor's designates a Chief of Staff to oversee the Assessor's Executive Office, focus on public affairs and communications, and establish strategies and initiatives for the non-operational areas of the Assessor's.

The Consultant also noted that 44% of the senior managers in the Assessor's have left since 2010, primarily due to retirements. While the individuals who replaced these managers have the necessary qualifications, they may have lacked experience or training in managing the Assessor's. In addition, the Assessor's has provided very little supervisory or management training since FY 2007-08. The Consultant recommends the Assessor's increase its supervisory/management training for its employees.

#### **Succession Planning**

The Assessor's has no official succession plan or process. The Consultant recommends the Assessor's conduct a succession planning process, including

forecasting managerial departures, and addressing projected departures through hiring, training, and promotions within the Assessor's.

#### **Promotions and Favoritism**

Strategica's surveys and interviews of Assessor's employees indicated there is widespread belief that favoritism played a significant role in promotions when the current Assessor was elected. However, the Consultant's review of documentation for promotions that have occurred since 2010 indicates that the individuals promoted met the requirements for the positions. The Consultant did note that the Department used more subjective criteria for high-level promotions, compared to more objective criteria for lower levels. Strategica recommends the Assessor evaluate requirements for promotions, and ensure consistent criteria are used for all examinations.

Further, the Consultant recommends the Assessor's implement a peer review process for management promotions to formally obtain input from other top managers on who they believe would be the best candidate for the position. However, the Assessor's management disagrees with Strategica's recommendation to give Assessor's staff input into management promotions in the Assessor's through a peer review process, see Attachment II. Assessor's management believes that peer reviews are impractical, and that candidates for promotion should be thoroughly evaluated and discussed by the Assessor, Chief Deputy, Assistant Assessors, and Directors of Operations of the Assessor's to select the best qualified individual.

#### Staffing

Strategica benchmarked the Assessor's operations to other large California counties, and determined that the Assessor's does not appear to be understaffed. In fact, the Assessor's appears to have more staff in the IT operation area, due to the Assessor's antiquated IT systems that hamper productivity and require many workarounds. The Consultant also noted a number of unnecessary one-to-one reporting relationships which can be easily remedied.

#### Integrity

The Assessor's integrity has been publicly questioned in part because of contacts between Assessor's staff (including the elected Assessor) and tax agents representing members of the public in assessment appeals, and because of campaign contributions from tax agents and their families to the current Assessor. Strategica recommends the County implement new County ordinances, policies, and procedures to prevent these activities, and restore the public's confidence.

The recommendations in this area have been substantially addressed by your Board's approval of the new County ordinance, such as requiring tax agents to register as lobbyists with the County.

#### **Agency Scope**

The Assessor is responsible for setting values for both real (secured) and personal (unsecured) property in the County. Secured property accounts for approximately \$1.06 trillion (94%) of the total taxable property in the County, while unsecured property (i.e., boats, planes, personal property used in a business, etc.) accounts for only \$69.8 billion (6%). The Consultant has two primary findings with recommendations below:

- Strategica found that the return on investment for assessing personal property is significantly less than that for real property, a ratio of 1 to 10. Specifically, the Consultant reviewed the Assessor's budget data and allocated the costs for the appraisal of real versus personal property, and then compared this to the total assessed value of each. They concluded that every dollar spent on real property results in \$117 in property tax revenue, whereas for every dollar spent on personal property results in \$10 in property tax revenue. Strategica recommends the Assessor's deploy its appraisal staff in a more cost-effective manner between personal and real property (i.e. more on real property and less on personal property).
- The Consultant noted that personal property assessments can be appraised by performing comprehensive canvassing through physical field inspections, or by utilizing Business Property Statements filed by the taxpayer. The Assessor's performs far more personal property appraisals utilizing the comprehensive canvassing rather than the filing of Business Property Statements. The Consultant noted that although both methods are professionally endorsed, canvassing is time consuming, and the State Board of Equalization recommends a judicious balance of both approaches. Strategica, therefore, recommends the Assessor's re-evaluate how personal property is assessed and consider using more self-reporting by property owners with verification of a sample of responses, instead of the current comprehensive canvass of 100% of the businesses in the County.

#### **IT Management**

Strategica determined that the replacement of the legacy IT systems is the biggest strategic issue for the Assessor's. The Assessor's heavily relies on workarounds and standalone databases to compensate for the deficiencies in the existing systems. In addition, these older systems require extensive maintenance, requiring 106 IT staff to support the assessed roll of \$1 trillion. The county assessor with the next largest number of IT staff, in the State, has 15 staff to support an assessed roll of \$300 billion.

To put it in context, Los Angeles County has more than three times of the roll valuation but has seven times the IT staff within the Assessor's.

The Consultant recommends the Assessor's IT Strategy be given high priority, and has provided a number of recommendations to improve the Assessor's IT management function, needs assessment, and consideration of replacing the legacy systems with off-the-shelf systems.

#### Workload Management

Strategica concluded that the Assessor's workload data is difficult to obtain, and is of questionable reliability. This is in part due to the deficiencies in the IT systems discussed earlier. In addition, the Department's ability to forecast the value of the property tax roll has been challenged by the recent real estate drop in prices. Strategica recommends the Assessor's explore ways to refine its workload reporting system to focus more on outcomes, instead of the variety of work activities. The Consultant also recommends the Assessor's continue to maintain a small forecasting unit, and that the Chief Executive Office temporarily retains a consultant to review the roll value forecasts until property values stabilize.

#### Assessment Appeals

Property owners who disagree with their property assessment can appeal to the Assessment Appeals Board, which is part of the Executive Office of the Board of Supervisors (Board Executive Officer). The Assessor's is represented in assessment appeals by a small group of experienced employees who act as Assessor Representatives (AR). Questions have been raised over whether some ARs were giving some tax agents preferential treatment, and were fraternizing with the tax agents outside of work. It was also alleged that some ARs were proposing reduced values on properties in an attempt to settle cases and clear the appeal calendar. The Consultant found no evidence to support these allegations, and noted that the settlement conferences they observed were professional, data-driven, and fair. However, the Consultant recommends the Assessor's continue the practice of rotating the ARs every three years, and refine their policies on approving value changes from dollar amounts to percentages.

Strategica noted that the number of assessment appeals has increased significantly, from approximately 10,000 in 2007 to over 40,000 in 2012. One of the issues affecting the Appeals Board's workload is that most appeals are continued at least once and frequently more. This results in ARs and Assessment Appeals staff spending time preparing for cases that will not be heard when expected.

Strategica also indicated that they believe the current assessment appeals process gives an excessive amount of due process to taxpayers and their agents, even though

the burden of proof is on the taxpayer to demonstrate that the Assessor's proposed value is wrong (except for owner-occupied single family residencies where the burden is on the Assessor's). The Consultant recommends amending County Code to impose a \$35 fee (there is no charge presently) to file an assessment appeal to offset part of the cost of the program, and discourage frivolous appeals.

The Consultant also made a number of recommendations for the Assessment Appeals Board (AAB) to consider revising AAB policies and procedures to streamline the process, while maintaining compliance with State Board of Equalization AAB rules. However, the Board Executive Officer disagrees with the recommendation to amend AAB rules to limit second continuance requests for AAB cases only when the parties can demonstrate a true hardship, see Attachment III. The Board Executive Officer believes that the decision to continue a case should be left to the discretion of the AAB.

#### Decline In Value (DIV) Processes

As noted earlier, the real estate drop in prices within the last few years has drastically increased the Assessor's workload, and required the Assessor's to develop new ways to appraise properties that have declined in value. In 2010, the Assessor's developed the DIV System, a mass appraisal system to value groups of similar properties. Strategica concluded that DIV is a useful system that should be improved with additional controls to prevent the possibility of inappropriate value reductions. Specifically, they recommended that approval thresholds based on percentage value changes be built into the system, along with password-secured approvals. Auditor-Controller staff have been reviewing the DIV system, and discussed these issues and recommendations with Strategica when the Consultant started their review.

#### **Valuation Methods**

As discussed earlier, the drop in real estate values has required the Assessor's to rely on computer-assisted mass appraisals. The Consultant has made a number of recommendations to improve these appraisals, such as implementing quality assurance and controls to monitor the mass appraisals.

The Consultant also noted that the current secured property data base (PDB) has limited location data available. However, the County's geographic information system (GIS) contains data such as views, proximities, seashores, and other value influences, such as golf courses, etc. The Consultant recommends linking the GIS to the PDB to give appraisers additional property data to improve their appraisal capabilities.

#### <u>Acknowledgement</u>

We met with Assessor's management and the Board Executive Officer to discuss the report. Both departments concur with most of Strategica's findings and

recommendations, and their detailed responses (see Attachments II and III) indicate that they have taken corrective actions to implement many of Strategica's recommendations, except for two of the disagreed areas mentioned earlier.

We thank the Board Executive Officer and Assessor management and staff for their cooperation and assistance throughout this review.

Please call me if you have any questions, or your staff may contact Susan Linschoten at (213) 974-8593.

WLW:JLS:SJL

#### Attachments

c: William T Fujioka, Chief Executive Officer Santos H. Kreimann, Chief Deputy Assessor Sachi A. Hamai, Executive Officer, Board of Supervisors Public Information Office Audit Committee title

# Management Audit of the Los Angeles Assessor

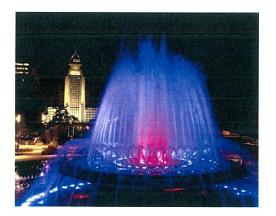
submitted to

**Los Angeles County Auditor-Controller** 

Report date

November 15, 2012







Management Auditing Lean Process improvement Strategic planning Organizational design



strategica-usa.com

Attachment I	
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November 15, 2012

Ms. Wendy Watanabe Los Angeles County Auditor Controller 500 West Temple Street, Room 525 Los Angeles, CA 90012

Dear Ms. Watanabe:

Pursuant to our Work Order No. 8-01A, we have completed our Management Audit of the Los Angeles Assessor. This report contains our findings and recommendations as specified in the Work Order.

Thank you for giving Strategica, Inc. the opportunity to conduct this project. We greatly enjoyed working with you and the Assessor staff.

Please call on Strategica, Inc. again should you need the services of a consultant. If you have any questions or comments, please contact me at (425) 427-5269.

Yours truly,

David M. Howe President

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Attachment I

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## **Executive Summary**

#### **Background**

The Assessor's Office appraises all real estate (primarily single-family homes) and personal property (businesses, manufactured homes, boats, and airplanes) located throughout the county. The Assessor is a key link in the process of identifying and valuing taxable property, and collecting and allocating taxes on that property.

The agency oversees the largest assessment jurisdiction in the United States with 2.4 million parcels and a staff of almost 1,500 employees. The core of the agency is comprised of appraisers who are college graduates, frequently with business or real estate backgrounds. Other staff groups examine property sales and transfers, map the County into parcels, evaluate exemption applications, or provide customer service to tax payers. Staff are based out of the Hall of Administration in downtown Los Angeles, and District offices in Sylmar, South El Monte, Signal Hill, and Culver City. Satellite offices are located in Lancaster and Van Nuys.

#### **Overall Assessment**

The scope of this project was to conduct a management audit of the Los Angeles County Assessor to evaluate agency operations, policies, procedures, and programs to provide the basis for recommendations for improving the effectiveness and efficiency of program operations and service delivery. The audit included a review of most significant areas of Assessor operations, including all those specified in the Statement of Work.

With the advent of Proposition 13 in 1978, the Assessor switched its valuation methodologies from focusing on determining fair market value (FMV) to adhering to the policy-based valuations required by the initiative. This resulted in a long period of under-investment in new systems and procedures. This created a major problem with the severe downdraft of property values that occurred in 2008 and 2009. In the space of a couple of years the Assessor has had to refocus on market-based valuations again. In response, the agency has retooled some procedures and systems, but control weaknesses have become apparent in the last couple of years. In addition, allegations of integrity lapses on the part of the elected Assessor have seriously hurt the public's confidence in the Assessor and the fairness of the property tax system. Issues in the appeals system, personnel policies, valuation methods, political controls, the scope of the agency, and the organizational structure call for the attention of management and County policy makers.

#### **Summary of Key Findings and Recommendations**

#### **Organizational Structure**

The Assessor's organizational structure is not designed to ensure continuity of operations during changes in the elected administration of the agency. The structure also does not reflect the need for strategic foci on statistical reporting, strategic IT procurement, or dealing with communications with members of the public and industry.

 The Assessor should keep the Chief Deputy Assessor position filled to provide continuity of management. The requirements for that position should clearly state the need for both substantial assessor experience and expertise, and demonstrated managerial competence. Most likely, this person would come from within the organization and have substantial



County experience. However, the individual could also come from other Assessor organizations, as desired by the agency and the County. The County Charter should be amended so that should the Chief Deputy Assessor position become vacant within six months before or after a change in the elected Assessor, the Board of Supervisors (BOS) would have the prerogative to appoint an acting Chief Deputy Assessor until a permanent replacement is found.

The Assessor should keep a Chief of Staff position filled to oversee executive office functions, and to act as a gatekeeper between the elected Assessor and the public and industry.

#### **Public Integrity**

Current policies and procedures do not adequately prevent ex-parte communications or other coercive activity between Assessor management and parties to appeals and administrative reviews. Rules also do not adequately prevent the corrosive incentives that can result from weak campaign finance laws.

- County ordinances should be amended to mandate registration for tax agents. Representation on AAB cases should be restricted to registered agents.
- 2. AAB rules and systems should be changed to restrict communications in appeals cases to certain persons involved in the case.
- Assessor policies should be amended to include recusal rules for the elected Assessor when appeal or administrative review cases are filed by campaign donors.

#### Agency Scope

State law requires the Assessor to value both real and personal property in the County. However, the return on investment from the personal property



assessment system is a fraction of the return that is obtained from real property. The Assessor could make resource allocation changes to correct some of this imbalance.

 The Assessor should change canvassing procedures to reduce the frequency of canvassing and shift resources to activities that produce more value.

#### **Roll Reporting and Forecasting**

Assessor workload and statistical reporting systems are complicated and cumbersome. They are not conducive to quick, reliable forecasting. Until the real estate markets stabilize and obviate the need for more robust forecasting capabilities, the County should seek outside help.

 The Assessor should form a small unit (using existing staff) dedicated to statistical reporting and forecasting. However, the County Chief Executive Officer (CEO) should also retain a private consulting firm to review, adjust and attest to the accuracy of forecasts for the next 3-5 years until values stabilize and render forecasts more predictable.

#### **Appeals**

The assessment appeals process is designed for an environment of lower appeals volumes, not the current period of huge volumes. The process allows for an excessive amount of due process given the nature and complexity of the caseload. More reasonable due process procedures would help to expedite cases.

 The Assessment Appeals Board (AAB), a unit of the Executive Office of the BOS should amend rules to expedite the processing of non-hearing agenda items, and limit continuances.

### Introduction

#### **Description of the Los Angeles County Assessor**

Property taxes are an essential component of income for any county to use in providing service to their citizens. The process of collecting money in an accurate and efficient manner and disbursing money in an equitable and timely manner is the basis upon which any county operates for the benefit of its citizens. The Assessor's Office is an essential component of that process.

The Assessor's Office assesses all real estate and personal property (businesses, manufactured homes, boats, and airplanes) located throughout the county. Along with other County agencies such as the Registrar-Recorder, Auditor-Controller, Treasurer and Tax Collector, the Assessor is crucial in identifying and assessing property which results in the collection and allocation of property taxes.

The agency oversees the largest assessment jurisdiction in the United States with 2.4 million parcels and a staff of almost 1,400 employees. It provides services through five primary organization sections:

- District Appraisals operates four geographical appraisal districts,
- Major Appraisals determines appraised values for major personal property, major real property, and central processing,
- Roll Services provides ownership services, exemption services, mapping services, assessment appeals, and other assessment services.
- Information Technology supports other business functions and ensures security of data, and
- Administrative Services provides essential support services such as human resources, finance, and training.



The core of the agency is comprised of appraisers who are college graduates frequently with business or real estate backgrounds. Other staff groups examine property sales and transfers, map the County into parcels, evaluate exemption applications or provide customer service to tax payers. Staff are based out of the Hall of Administration in downtown Los Angeles and District offices in Sylmar, South El Monte, Signal Hill, and Culver City. Satellite offices are located in Lancaster and Van Nuys.

Key workload figures and statistics include (2011-12 figures):

- 414,000 deeds received
- 153,000 re-appraisable transfers
- 47,000 Assessment appeals processed
- 140,000 business property statements received
- 497,000 proactive Prop 8 decline-in-value reviews
- 1,457 budgeted positions
- \$153 million budget
- 50% of the agency budget is supported by assessment and tax collection fees. The remainder of the budget is Net County Cost (NCC)

Historically, the County Assessor was an uncontroversial agency that performed its statutory duties in a quiet, competent manner. Assessed values were mostly determined by policy (i.e., Prop 13) rather than FMV, so only a fraction of the roll was actually appraised each year. Starting in 2008, several events occurred that strained operations.

The recession that started in 2008 and gathered steam in 2009 caused a deep downdraft in housing values nationwide and in the County. The resulting real estate recession was the worst in a generation. Most parcel values dropped below

their adjusted base year values<sup>1</sup> resulting in massive numbers of revaluations that were required under Proposition 8.2 Declines in value were enrolled through mass appraisal techniques, or at the request of taxpayers for either administrative reviews or a formal appeal to the AAB. These sudden, huge volumes of marketdriven appraisals forced several major changes in policy, systems, and procedure at the Assessor. Because the agency (like all California Assessors) had not been regularly valuing properties at FMV, valuation procedures, capabilities, and systems were not in top condition. This had to be guickly reversed.

Into this maelstrom stepped a relatively untested, newly elected Assessor, John Noguez. Mr. Noguez was first elected in 2010 after a hotly contested election in which 14 people ran for the office (including many fellow agency staffpersons). Mr. Noguez was, by most accounts, a competent appraiser, but had little supervisorial or executive experience. This was a departure from the past where the second-incommand at the agency would normally be elected to the Assessor position when it opened up, usually after a perfunctory election campaign.

Soon afterwards, the Agency experienced a rash of departures in the management ranks (mostly through retirements) which cut into the skill base and institutional knowledge of the agency when it really needed it the most. As discussed later in the report, 44% of the executive and senior management ranks have left since 2010.

Within a few months of the change in leadership, the agency was beset by allegations of influence peddling on the part of the elected Assessor and further allegations that a staff appraiser drastically reduced values on certain properties bypassing internal controls and falsifying documents in the process. Criminal investigations and grand jury investigations ensued.

<sup>&</sup>lt;sup>2</sup> Proposition 8 (1978) requires that property be re-assessed at market value if it drops below the adjusted base year value.



Determined by the value of the property when it was first appraised (typically the date of purchase) adjusted annually by the fixed limits set by Proposition 13.

The BOS has become keenly interested in the outcome of these investigations, and is rightly concerned about the reputation and integrity of County government, especially an agency that determines assessed value by which property taxes are determined. The competence of agency management and the accuracy of work they produce is being questioned by the BOS, while the District Attorney, the Auditor-Controller, and the media investigate. This perfect storm has engulfed the County Assessor and has spawned one additional investigation, this management audit.

#### **Accomplishments**

In addition to day-to-day accomplishments, such as appraising property, processing deeds, exemption requests and appeals, the Assessor can also claim credit to a number of accomplishments:

- The agency provides an initial nine-month appraiser training program to new personnel each year, widely recognized as one of the best in the State. Retention of personnel who have gone through the program is superb. One hundred and twenty two (122) people matriculated through the last five Real Property training classes and 81% were still with the agency after three years. Eighty percent are still there today.
- Implementation of the Decline-in-Value (DIV) Project which has identified as many as 500,000 parcels per year over the last several years requiring a decline-in-value review, a market value appraisal and, if needed, reassessment to reflect declines in the real estate markets. In 2009, the Assessor was honored by the County's Quality and Productivity Commission with a Top Ten Award, and for the first time with the "Number One" Gold Eagle Award for the Decline-in-Value Reviews and Outreach Project.
- The Automated Information Request (AIR) which identifies properties that will be scheduled for review, and automatically prints and mails a form letter requesting the information exchange for appeals cases.
- The Reclustering Project addresses cluster (neighborhood) definitions
  that are out of date by creating meaningful economic areas for use by
  both appraisal staff, management (workflow), and by the various
  systems that use statistical analysis based on these cluster boundaries.
- The Assessor has initiated a long-term project, the Building Plan Acquisition System (BPAS), to garner the cooperation of many of the

- permit issuing agencies, and build a tracking system to handle and process the building plans as needed for valuation purposes.
- The procurement of Narrative1, an off-the-shelf software product that is designed for the valuation of residential-income and commercial/industrial properties.
- The Assessor acquired new Project Portfolio Management Software and established a Project Management Office (PMO) responsible for setting project management standards and best practices to prepare the organization for development and implementation of new IT systems.
- Implementation of Procured Project Portfolio Management software will provide executive visibility into IT processes, allow for meaningful prioritization of projects, and help the PMO with implementation of project management standards.

#### **Project Objectives/Scope**

The scope of this project is to conduct a management audit of the Los Angeles County Assessor to evaluate agency operations, policies, procedures, and programs to provide the basis for recommendations for improving the effectiveness and efficiency of program operations and service delivery. In addition, the audit included benchmarking and best practices analysis to evaluate specific operations and the overall Assessor performance. This report covers each area in the original work scope with the exception of exemptions and strategic planning. Based on Phase I findings on exemptions, it was determined that no further investigation was warranted. Also, during Phase I, we determined that the Assessor did not have a current strategic plan but that the agency was in the process of developing a strategic plan. This plan has subsequently been completed and action plans are now being developed. Based on this, we determined that further investigation into strategic planning was not warranted.

#### **Standards Used**

The consultants conducted this management audit in accordance with general and performance audit standards regarding qualifications, independence, due professional care, quality control, fieldwork, and reporting prescribed by the U.S. General Accounting Office (GAO) in Government Auditing Standards (2011 Revision).

#### **Methods Used**

The management audit was conducted in three phases:

Phase I – Preliminary Survey. In the preliminary survey phase, the consultants held an entrance conference; gathered information about Assessor operations; and prepared a management briefing that presented potential areas of risk or potential improvement; and developed a detailed workplan for the subsequent audit phase of the project. Specific work tasks included:

- 15 interviews involving 18 Assessor and County managers and external stakeholders,
- Reviewed workload and performance statistics,
- · Reviewed 18 reports,
- Reviewed the assessment standards report from California State Board of Equalization (BOE),
- Reviewed pending litigation and legislation,
- Reviewed prior audit reports from the Auditor-Controller, and
- Conducted an agency-wide staff survey (579 responses, 82 pages of written comments).

**Phase II – Audit Phase**. In this phase, the consultants performed the tasks incorporated in the Phase II workplan. These included:

- Evaluated processes and policies for assessment appeals,
- Evaluated controls used for Prop 8 decline-in-value reviews,
- Reviewed the workload management and statistical reporting functions,
- Reviewed valuation methods and policies,
- · Reviewed succession planning and management qualifications,
- Evaluated if favoritism played a part in staff promotions.



- · Reviewed agency staffing levels,
- Determined the proper management structure of the agency,
- Determined if there was any activity or communication that compromised the integrity of the agency,
- Determined the relative rate of return of personal property assessment versus real property assessment, and
- Evaluated the management of IT systems.

At the conclusion of Phase II, the consultants discussed preliminary findings and recommendations with the Auditor-Controller.

**Phase III – Reporting Phase**. In this phase, the consultants prepared a draft report based on the results of Phase II, conducted an exit conference with the Office of the Assessor, the Executive Office of the BOS, and Auditor-Controller staff, and finalized the report.

## Findings and Recommendations

#### Section A - Organizational Structure / Personnel

Many of the above issues are discussed in this chapter on Organization Structure and Personnel. Areas for review include:

- Management Qualifications and Succession Planning
- Promotions and Favoritism
- Staffing
- Organization Structure

#### Section A.1 - Management Qualifications / Succession Planning

Management of any organization should demonstrate the skills, expertise, judgment and leadership capability to manage all aspects of the operation in an equitable and professional manner. It is incumbent on management of any organization to ensure that the personnel in positions of authority are the correct individuals in terms of experience and ability, and that a plan is in place to ensure the replacement of those individuals with at least equally qualified personnel. To accomplish this, it is essential that an equitable process exists as this encourages individuals to perform optimally in order to be competitive regarding career advancement opportunities that may arise.

Criteria for qualified management and effective succession planning include:

 Continuity of management and expertise so that as managers depart, are hired, promoted or elected, the essential functions of the agency can continue uninterrupted,



 Supervisory experience or training to ensure that the individuals manage those under them fairly and in a manner that represents the best interests of the organization.

In this section we address three separate questions:

- Does the current management team have the necessary qualifications and experience for running the Agency?
- 2. Does the agency have the structure in place to continue operations uninterrupted in the event of significant changes in top management positions?
- 3. Does the Agency have a succession plan or process?

#### Assessor Qualifications

The head of the agency is the County Assessor, an elected, constitutional Officer, and thus not subject to the same requirements for "promotion" to a senior management position. Although the Assessor had spent 27 years in the agency, the majority of that time was spent as an Appraiser Specialist, focusing on commercial and industrial properties. The current elected Assessor holds a California State BOE Advanced Appraisal Certificate and attended California State University, Los Angeles, concentrating his studies in the School of Finance. He did not receive a degree.

While employed at the agency, the current elected Assessor held a variety of political offices, including Mayor and City Councilman, with the City of Huntington Park. He has also been a government leader in several significant positions including President of the League of California Cities, and Los Angeles County Secretary/Treasurer of the California Contract Cities Association.

Up until the last year before being elected, the highest position the elected Assessor held in the agency was as Appraisal Specialist I. Previous positions included Student Worker, Appraiser Assistant, Appraiser Trainee and Appraiser.



Ideally, positions held before becoming an elected Assessor would include Principal Appraiser, Supervising Appraiser, Chief Appraiser, Director, and Assistant Assessor or Chief Deputy. As such, the recently elected Assessor had little supervisory or managerial experience prior to assuming his current role.

The criteria for being the Assessor is not management experience but rather the number of votes received. Therefore, the agency must have a management structure in place that can promote the Assessor's effectiveness regardless of his or her prior experience or management skills. In most organizations led by an elected official, a chief deputy position normally exists that provides that institutional knowledge and continuity for the agency. This position is frequently tasked with managing the day-to-day operations of the agency while the elected official sets strategy and policy and handles inter-governmental affairs.

#### Brain Drain

The organization structure of the Assessor currently has 18 senior management positions at the level of Chief Appraiser and above. Since the current Assessor was elected in 2010, there have been 8 departures (44%) of managers at these position levels, not counting the Assessor himself. The result has been a rapid drawdown of technical and managerial experience within the agency. Figure A-1 on the next page shows that a total of 218 years of technical and management experience has left the agency since late 2010.

Although the individuals who have moved up had the necessary qualifications and experience, it is a relatively untested group in regards to their current positions. For example, the Assistant Assessor only had 22 months experience as a Director before becoming Assistant Assessor, and has been in the current position for 19 months. Two of the three Directors have less than 20 months experience in their current positions. The Director of Roll Services only had 11 months experience as



a Chief before becoming Director. Six of the 9 Chiefs have less than 15 months experience in their current positions.

Figure A-1 – Recent Management Departures

Title-departing manager	County service-departure (years)	Date Retired/Left
Chief Deputy	21	26-Dec-11
Chief Deputy	0.5	26-Feb-12
Assistant Assessor	39	30-Mar-12
Director	39	21-Jan-11
Director	15	3-Dec-10
Chief Appraiser	32	29-Mar-12
Chief Appraiser	40	31-May-11
Chief Appraiser	31	30-Mar-12
Total tenure	218	
Average tenure	27	

Source: Assessor

## Management Training

Although many top managers have degrees, and have attended various technical training programs, there has been little ongoing supervisory or management training provided by the agency or the County in the recent past. The management and training budget has, in fact, been non-existent for several years and overall training budgets (direct office, without union assistance) have been decreasing since 2007-2008.

The County requires that managers and staff attend several required training courses. The programs offered protect the County from various legal issues and are important for all employees, new supervisors and existing managers to understand. However, they do not include specialized leadership training on how

to be a good supervisor or manager or discuss managerial issues that should be anticipated.

#### Succession Planning

There is no official succession plan or process, although the organization does try to prepare personnel for various opportunities as they arise. The agency has a goal of encouraging each manager to have a broad base of experience and the agency has implemented an annual personnel/management rotation program. Although this is an effective program for broadening experience, it does not replace a formalized succession plan.

Every year, all staff are offered an opportunity to identify their three top preferences for job rotation. These preferences may be based on staff's desire for exposure to new areas, or simply a desire to work closer to home. The preferences are reviewed by senior management and, where feasible, rotations are made. This program provides an opportunity for senior managers to discuss rotation needs for the agency.

While it is admirable that the agency is concerned with the needs of employees to live near their home or to gain work experience in a different area, it is critical that manager rotations be reviewed with the primary goal of strengthening the agency performance needs and preparing staff for future promotional opportunities. Succession planning should be added to this process.

#### Recommendations:

**Recommendation A1** – The Assessor should keep the Chief Deputy Assessor position filled to provide continuity of management. The requirements for that position should clearly state the need for both substantial assessor experience and expertise, and demonstrated

managerial competence. Most likely, this person would come from within the organization and have substantial County experience. However, the individual could also come from other Assessor organizations, as desired by the agency and the County. The County Charter should be amended so that should the Chief Deputy Assessor position become vacant within six months before or after a change in the elected Assessor, the BOS would have the prerogative to appoint an acting Chief Deputy Assessor until a permanent replacement is found.

**Recommendation A2** – The Assessor should increase the budget, opportunities and expectations for leadership and supervisory/management training for personnel in the agency including external course offerings.

**Recommendation A3** – The Assessor should expand the Rotation Process and, on at least an annual basis, conduct a succession planning process that would include:

- · Forecasting managerial departures,
- Inventorying projected technical and managerial deficiencies due to departures or based on strategic planning,
- Planning for remedying these deficiencies through hiring or promotions, and
- Training needs for those that may be promoted.

#### Section A.2 - Promotions and Favoritism

Personnel in an organization must feel that their work is valued and provides an equal opportunity for promotion. Few things hurt morale in an organization more that the perception/reality of favoritism based on issues not related to the job functions.



Criteria for successful promotional policies and actions include:

- Promotional opportunities should be the same for all qualified individuals, and not based on a perception of favoritism by a senior manager. This, of course, does not mean that equally qualified individuals must be deemed equal based on subjective criteria for job suitability, i.e. two people with the exact same backgrounds might both be eligible for a specific promotion but the individual with the attitude or work ethic (more subjective criteria) that is more suitable for the job may be chosen without encountering bias.
- Selection or promotions should not be based on extraneous factors (e.g., contributions to a campaign, attendance in a specific church or club) that are not job related. To do so may enhance the perception of favoritism and lead to morale issues within the organization.

The primary question to be addressed in this section is:

1. Does the Agency demonstrate favoritism in promotions?

There is widespread belief in the agency that favoritism has played a significant role in promotions since the Assessor was elected. There are numerous accounts of personnel being in meetings with the Assessor where he was very clear who he wanted to promote with an expectation expressed for senior management to make it happen. According to reports, these expectations were expressed regarding personnel who worked on or contributed to his campaign or who were personal friends. The lack of objective performance criteria, the hiring of "at will" individuals, the fast movement of personnel up in the organization, and the ability to donate to campaigns all contributed to the perception of favoritism. Each will be discussed on the following pages.



## Personnel Rules and Regulations

Various criteria are considered for promotion at the agency, some more subjective than others depending on the level of promotion. For higher level promotions the criteria is more subjective. For promotion to Chief Appraiser and above, the process involves a discussion of senior managers who assign a score for Appraisal of Promotability (AP). This is a subjective process since it is based on input of a variety of people and their perception of an individual's experience, expertise and anticipated ability to perform the function. As described by several Senior Managers, because the AP score is subjective, strong opinions from just a few people can skew the score and result in undesirable promotion outcomes.

Below the Chief Appraiser level, the criteria for Principal Appraiser is more objective. In addition to the AP, promotion is also based on a Rating of Records which looks at more quantitative factors such as work assignments, training received, etc.

We reviewed the AP scores for individuals who were promoted to see if they changed after the election of the Assessor. We discovered that only one person was promoted whose AP scores was changed after the election. This person, who was promoted to Chief in June 2011, had an AP score of 90% in January 2009 and subsequently received a 100% in February 2011. He was also approved for a Temporary Assignment Bonus as Acting Director, but has since been reassigned resulting in the removal of the bonus. He is currently out on administrative leave.

Another factor that increases the perception of favoritism is how fast an individual moves up within the organizational structure. Both the Principal Appraiser and Chief Appraiser job classes have minimum experience requirements. Promotion to Principal Appraiser requires two years as a Supervising Appraiser and promotion

to a Chief Appraiser requires two years as a Principal Appraiser. All promotions made since 2010 met the minimum experience requirements.

Assistant Assessors, Chief Deputy Assessors, and Directors are all unclassified positions and do not have bulletins or minimum experience requirements. The Assistant Assessor and one of the three Directors were promoted to their current positions with less than two years' experience in their previous position.

Finally, we reviewed the promotional criteria (components of banding) for all promotions immediately before and after the election. We were testing to see if the criteria were made easier to allow a specific person to be promoted. However, none of those criteria changed. Chief Appraiser was based 100% on AP while the Principal Appraiser was based 50% on Rating of Records and 50% on AP scores.

# At Will Employees

Special Assistants are typically "at will" positions and, as such, are either personnel transferred from within the organization or brought in from the outside. Special Assistant positions do not have a formal job classification or testing requirement. Anytime there is an opportunity to choose personnel for various positions without specific stated job requirements or testing opportunity, there is the potential perception of favoritism. Special Assistant positions require approval by the County CEO but since the Assessor is an elected official, the selection is primarily at the discretion of the Assessor.

At the Assessor, two people were transferred and three were hired as "at will" Special Assistants. Of the transferees, one handles legislation and policy and one handles Valuations. The three new hires are all in communications/public relations functions. Based on a review of these individuals qualifications, they are qualified and have the appropriate background to perform the functions they have been assigned.



## Contributions and Promotions

While it is not unusual for employees to contribute to campaigns, many people reported that there was intense pressure to contribute to the various campaigns during this last election.<sup>3</sup> Many of the senior management in the agency contributed. Based on data on banding and donations, there was no correlation between donating to the winning campaign of Mr. Noguez and receiving a promotion that couldn't be explained by other causal factors such as banding level or acting status.

#### Recommendations:

**Recommendation A4** – The Assessor should evaluate the promotion requirements for all Assessor items to ensure consistent criteria is used for all promotional examinations.

**Recommendation A5** – The Assessor should implement a Peer Review of Chiefs prior to promotion to Director. The Assessor and Chief Deputy should formally obtain input from other Chiefs on who they believe would be the best candidate for a Director position. While the decision would still be based on who the Assessor believes is best qualified to manage a large section of the agency, this practice would at least provide input to the Assessor from the other Chiefs on that individual's skills and abilities.

<sup>&</sup>lt;sup>3</sup> Fourteen people ran for Assessor in 2010. Also, it is illegal for an elected official to solicit political donations from his or her staff per Government Code 3205.



#### **Section A.3 - Staffing**

The identification of over or under staffed units is complex as workloads vary from year to year and section to section. Although there are specific indicators of staffing issues, some are less useful than others. The Time and Volume (T&V) System was, at one time, based on engineered standards as a basis for staffing. However, over time, standards have become based more on a running average of activity times which decreases it usefulness, as discussed in Section E.

Criteria to use when evaluating staffing include:

- Staffing numbers should be appropriate to conduct the business of the organization. Overstaffing would be a misallocation of County financial resources and would foster an unproductive work ethic.
- Substantial turnover may be an indicator of additional staff needs and that there may be a potential for job burnout.
- Overtime utilization should be minimal and related to the occurrence of periodic workload spikes rather than ongoing shortage of staff.

The questions to be addressed are:

- 1. Are there currently any over or under staffed units in the Organization?
- 2. Will there be sufficient staffing to provide for Assessor operations in the near term?

# Benchmark comparisons

The BOE publishes an annual report on staffing, budgets and workload for county assessors.<sup>4</sup> We extracted data from this report to perform benchmark

<sup>&</sup>lt;sup>4</sup> A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 2010-11, February 2012, California State Board of Equalization



comparisons on staffing for large California counties. The following charts show how Los Angeles County compares.

Staff per \$1M of roll value

1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0

Orange santa clara santaego kangeda santaenadino kueside los kueside santaego kueside santaeg

Figure A-2 - Staff per \$1 million of roll value

Source: BOE, FY 2010-11

As seen in Figure A-2, Los Angeles County has the highest staffing among the large counties in the sample with 1.4 staffpersons per \$1 million in roll value. Los Angeles County was 27% higher than the mean of 1.1 staffpersons per \$1 million roll value.



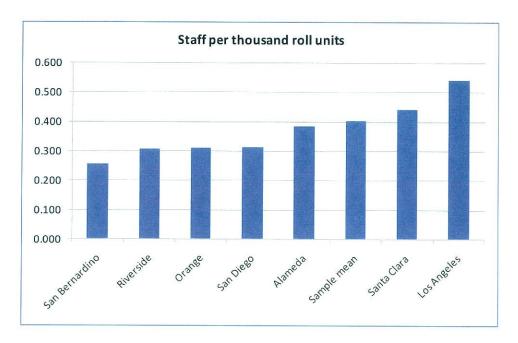


Figure A-3 - Staff per thousand roll units

Source: BOE, FY 2010-11

As seen in Figure A-3, Los Angeles County has the highest staffing among the large counties in the sample, with .5 staffpersons per thousand roll units compared to the sample mean of .4 staffpersons. Therefore, County staffing is 25% higher than the sample mean. This is partially a factor of the diversity and complexity of assessed property in the County which compared to some of the peers. Productivity in Los Angeles County is also hindered by the archaic and obsolete enterprise IT systems. Based on benchmark comparisons, and considering the above mitigating factors, the agency is not understaffed.

Based on the same BOE data<sup>5</sup> we also benchmarked Los Angeles County against peer California counties based on the percentage of each type of staff compared to total staffing.

Figure A-4 – Staff type as percent of total staffing

	Drafting/						
County	Managers	RP appraisers	PP appraisers	mapping	IT.	Other tech	Support
Alameda	5%	32%	13%	4%	3%	9%	34%
Los Angeles	4%	26%	12%	3%	7%	4%	44%
Orange	2%	30%	17%	4%	4%	3%	39%
Riverside	4%	40%	8%	6%	4%	35%	4%
San Bernardino	4%	34%	8%	4%	3%	22%	24%
San Diego	7%	29%	13%	6%	1%	19%	24%
Santa Clara	5%	28%	18%	3%	6%	9%	32%
Sample total	4%	29%	13%	4%	5%	9%	36%

Source: BOE, FY 2010-11

As seen in Figure A-4, Los Angeles County Assessor staffing is over-represented (red-shaded cells) in IT and support personnel and under-represented (yellow-shaded cells) in real property appraising, drafting/mapping and other technical staffing. IT staffing, in particular, is markedly higher than in peer counties. Los Angeles County has 106 IT positions while the next highest County has 15. In support staff as well, Los Angeles County has a large complement. Both of these are due to the archaic enterprise systems and numerous small systems used in Los Angeles requiring large IT and support staffs. As the County eventually modernizes its enterprise systems, it should see productivity increase as well.

In addition to reviewing benchmark data, Strategica conducted a survey of all Assessor staff at the initiation of the project. One of the issues addressed was perceived high work load or potential staff shortages. We then compared that input with management and stakeholder interviews to see if the perception was

<sup>&</sup>lt;sup>5</sup> A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 2010-11, February 2012, California State Board of Equalization



accurate from management's point of view. Although the staff survey did not identify an overwhelming shortage of staff overall, the survey indicated a perceived shortage of staff in Major Real Property, some districts and Ownership. Staffing has recently been increased in Major Real Property and a new class of trainees has been formed for the Ownership Section. As a result, if there were any staffing issues in these units, they should be mitigated.

## Overtime Utilization

Excessive and pervasive overtime utilization can point to staffing shortages. We calculated overtime use in various Assessor organizational units to see if there were any apparent under staffing issues. Figure A-5 shows the results of this analysis.

Figure A-5 – Overtime utilization by org unit (FY 2011-12)

Org Unit	Paid OT hours	Accrued OT hours	Total OT hours	# of staff	Avail hours	OT as % of avail hours
Executive Office	27	271	298	14	24,500	1%
Human Resources	426	8	434	22	38,500	1%
Management Services	759	_	759	40	70,000	1%
Training	51	-	51	39	68,250	0%
Ownership	5,254	25	5,278	199	348,250	2%
Exemptions	212	1=	212	98	171,500	0%
Assessment Services	94	38	132	69	120,750	0%
ITD	515	2	517	108	189,000	0%
Project Management	238	99	337	17	29,750	1%
Major Personal Property	1,420	32	1,452	103	180,250	1%
Major Real Property	7,542	418	7,960	92	161,000	5%
Central Processing	1,494	( <del>*</del>	1,494	48	84,000	2%
North District	3,395	134	3,529	163	285,250	1%
South District	5,724	114	5,838	112	196,000	3%
East District	9,712	308	10,020	121	211,750	5%
West District	8,086	798	8,884	113	197,750	4%
Agency totals	44,492	1,968	46,460	1,311	2,294,250	2%

Source: Assessor

As seen in the table, the overall use of overtime is very low at 2% of total hours again indicating that the agency is not understaffed. The highest usage was in Major Real Property and the East and West Districts. Additionally, the Districts and Major Appraisals used the highest number of retiree hours to support their operations. During the last three calendar years, the Districts used an average of 4,117 hours of retiree time and Major Appraisals used 3,534 hours. These are a fraction of the available hours and do not suggest any understaffing in these areas.

## Turnover

In addition to identifying potential staffing shortage by functional area, we reviewed the overall future staffing needs based on turnover and anticipated retirements. Turnover of total staff has remained relatively constant in the past three years at about 5% of total staffing and does not indicate any staffing shortages.

What turnover exists is mostly a factor of retirements. Retirements as a percentage of total turnover have grown steadily over the past three years. The average tenure of Assessor retirees is 33 years of service. Currently 69 staffpersons are at that level of service and can be expected to retire in the near future. Additionally, there are 416 persons who have 23-33 years of service. Assuming a similar retirement rate for the future, these numbers are consistent with past retirement levels and are therefore, not anticipated to cause staff shortages for the agency.

# Assessor Executive Office Staffing

There is a perception within the agency and others in County Management that the Assessor's Executive Office (primarily public outreach and public affairs functions) are overstaffed, based on the number of new Special Assistants brought on by the Assessor. Some of this was a direct result of the elected Assessor's desire for increased public outreach to other municipalities to gather more data from construction permits. This was regarded as potentially promoting a more accurate



assessment roll as well as facilitating a connection with local service organizations to educate them on exemptions available. Unforeseen at the time was the increased need for staff to deal with the public in general, and the increased media attention and information requests brought about by the allegations of impropriety.

The Assessor's Executive Office has not been formally reorganized in over twenty years to reflect its function as the public affairs division of a County department. Under previous administrations, the role of the previous Chief Deputy Assessor was to directly manage the Assessor's Executive Office without any oversight over other areas of the department (in contrast to the current structure). During that time, there were no written job descriptions identifying the designated roles and responsibilities expected to be performed by Special Assistants or any documents identifying the types of personnel who would be appropriate for the Special Assistant function.

Personnel recently added to this function report that when they arrived there were no communications plans for the various constituencies of the agency, no media contact lists, no communications budget, and no policies or procedures to address legislative initiatives. Additionally, there had been no identification of gatekeeper needs for Tax Agents or others, special requests from Board Offices or other political personnel, communications needs, media inquiries and public records act requests. Previously, these functions were performed, to the extent necessary, by the long-term Chief Deputy who left at the beginning of the current administration and took the knowledge of how to perform these jobs with him.

The personnel in the Assessor's Executive Office in past administrations were primarily appraisers who ascended to the ranks of executive management based on seniority. Few had formal training in public relations or communications responsibilities. Additionally, the lack of a formal plan and job objectives contributed to the perception of favoritism in the office since the Assessor moved several people into the office as Special Assistants or hired additional staff as desired. Public relations and communications are important functions of the



Assessor's Executive Office and further development of strategic focus for the office and job responsibilities is warranted. Until this is done, it is not possible to identify the proper staffing needs or types of individuals required to meet the job requirements.

One thing is clear, however, and that is that most of these functions will continue in the future and consideration should be given to making them permanent, professional positions in the agency rather than Special Assistants, which will continue to carry connotations of favoritism.

#### Recommendations:

Recommendation A6 - Develop an Assessor's Executive Office under the direction of a Chief of Staff with a focus on public affairs and communications and establishing Assessor initiatives and strategies in non-operational areas. A formal strategic plan/focus for the Assessor's Executive Office should be developed as well as job descriptions for the individuals necessary to staff the office. Consideration should be given to reducing the number of Special Assistants in the office and for hiring professional personnel to adequately staff these functions. Special Assistants should be limited in number and only used for specialized needs by future Assessors.

## Section A.4 - Organizational Structure

There are multiple ways to organize a government department or organization. Depending on the personnel chosen to perform the functions, different organization structures can be equally effective. However, there are some general criteria to review when assessing the effectiveness of the organizational structure or when determining organizational changes. Those criteria include:

- The levels within the organization must provide the most efficient structure to serve the goals of the organization. Too many levels lead to ineffective decision-making and too few may lead to a lack of management oversight.
- Spans of control must be sufficiently broad to ensure that the managers are being leveraged sufficiently but not so broad as to overburden these same managers.
- Placement of units within divisions should provide a synergy of function and focus.
- Areas of strategic importance to the future of the organization should be provided the visibility of senior management to ensure their success and reflect their importance to the rest of the organization.
- Organizational placement should facilitate work process efficiency.

The primary questions to be addressed in this section are:

- 1. Is the organizational structure efficient and effective for the agency?
- 2. What is the optimal management structure for the agency in the future?

The agency had a relatively constant organizational structure for the several years prior to the time the current Assessor took office on December 6, 2010. Since then, there have been numerous changes brought about by senior staff departures or the perceived need to reorganize the office. These substantial changes have caused confusion and consternation in the agency and have contributed to the perception of upheaval within the management ranks. Appendix C describes the



organizational changes that have occurred since 2008. The current organizational structure is shown in Figure A-6.

There are effectively seven supervisor levels in the appraisal organization consisting of: 1) the Assessor, 2) Chief Deputy, 3) Assistant Assessor, 4) Director, 5) Chief Appraiser, 6) Principal Appraiser, and 7) Supervising Appraiser. Spans of control of 1:4 to 1:8 are common among staff appraisers in the Districts and in Major Appraisals. Among Supervising and Principal Appraisers spans of 1:2 to 1:4 are common. Managers with span of control of 1:2 or 1:3 could handle a broader span.

Although there are several 1:1 span of control issues, the majority of spans of control are in excess of five and increase on the lower rungs of the organization. These are appropriate, given the type of work performed. 1:1 reporting relationships should only exist under one of two conditions: 1) there is a need for an internal and external focus that are both full time positions (similar to the current Assessor and the Chief Deputy), and 2) there is an anticipated near-term retirement requiring a person be trained to backfill. Although 1:1 spans of control may be appropriate in many cases, it is incumbent on management to periodically review these short span situations for efficiency and effectiveness. Areas where 1:1 spans exist include:

- Management Services between the Departmental Manager and the Acting Administrative Services Manager;
- Area 9 of the Major Personal Property Division where a Principal Appraiser has only one Supervising Appraiser direct report;
- The clerical support within the Exemption and Public Services Division where a Chief Clerk reports directly to the Head Support Services;
- In the Ownership Division, there are two positions called Head of Support Services each of which has only has one OS Supervisor reporting to her.
   The span of control below that level is very broad and the organization may benefit from more direct reports to the Chief Appraiser.



 The final example of a 1:1 reporting is in the Assessment Services Division where the Supervising Cadastral Engineer III only has one report, a Supervising Cadastral Engineer II.

Additional observations about the current organizational structure include:

- There is a difference of opinion among the senior management staff on whether one or two Assistant Assessors is appropriate (the agency has had both structures in the recent past). As always, a great deal depends on the individuals in the positions and the level of communications among the senior staff. But the majority of opinion, shared by the consultants, is that a single Assistant Assessor would optimize unity of command over all appraisal functions.
- Each of the Director areas of responsibility is appropriate since similar functions are reporting to a single Director. Without the Director level, the span of control for the Assistant Assessor would be too broad. Without the Assistant Assessor position consolidating all the appraisal functions, the span of control for the Chief Deputy would be excessive.
- Until recently, the agency had an Administrative Section which had HR, IT,
  Management Services and Training all reporting to an Admin Deputy.
  These functions have now been temporarily distributed to the Assistant
  Assessor and the Chief Deputy. This has had the effect of broadening the
  span of control for these managers with support functions rather than line
  functions.

#### Recommendations:

**Recommendation A7** – The Assessor should implement a new Organization Structure similar to Figure A-7. This new structure features:

 A Chief Deputy overseeing all agency operations and reporting to the elected Assessor. This will ensure continuity of operations given that future Assessors may or may not have extensive



knowledge about Assessor operations. The Chief Deputy should have experience in both assessor functional areas and municipal government.

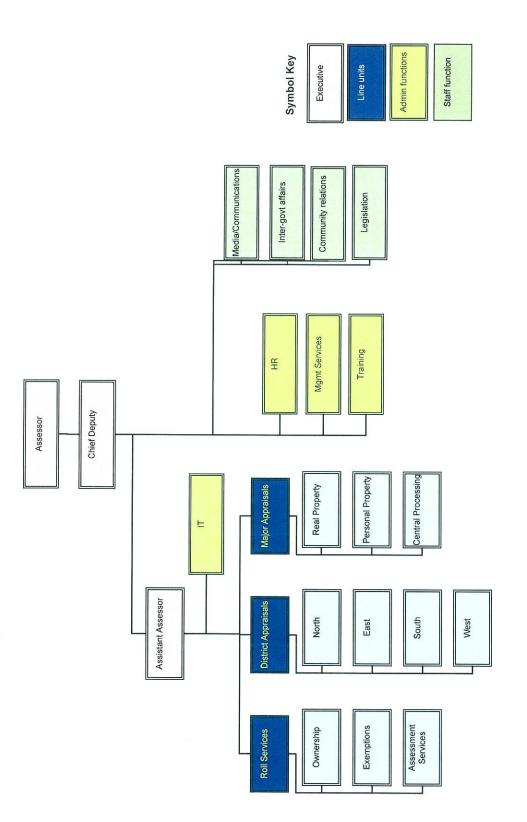
- A small IT strategy unit that would focus entirely on the future IT needs of the agency reporting directly to the Chief Deputy. Currently the primary focus of IT, as discussed elsewhere in this report, is on maintenance and development of existing systems. However, considering the pressing need for major legacy system replacement, a separate IT section focusing on strategic procurement and implementation of future IT development is needed. The Assessor recently formed an IT project management unit and this unit could form the basis for the IT strategy unit but it needs to report at a higher level to reflect the strategic importance of legacy system replacement.
- IT should be moved organizationally to report to an Administrative Deputy along with HR, Management Services and Training.
- Establish a roll reporting and forecasting function reporting to the Chief Deputy to ensure proper strategic focus of reporting and forecasting and accuracy of agency forecasts.
- The Assessor's Executive Office should be under the direction of a Chief of Staff who would act as gatekeeper for all extraneous communications and requests coming into the office including those from tax agents and campaign donors. See Section B for a further discussion. The Chief should oversee a professional public information and communications office consisting of permanent positions, as discussed earlier.

**Recommendation A8 -** Review short span of control situations and, based on the stated criteria discussed in this section, increase spans of control so that managers have the proper leverage and to reduce management layers.



STRATEGICA

Figure A-6 - Current Organizational Structure



Page 36

Forecasting/ Special projects

Roll Services

Contral Property

Assessment

South

West

West

Figure A-7 – Proposed Organizational Structure



Admin functions

Legislation

Line units

Community relations

Mgmt Services

Symbol Key Executive

Inter-govt affairs

H

Media/Communications

Chief of Staff

Admin Deputy

IT Strategy

Chief Deputy

Assessor

Staff function

### **Section B - Integrity**

In return for paying taxes and observing the laws and conventions of government, citizens expect that their elected and appointed public officials will (among other things):

- Serve and treat all citizens equally, without regard to status or wealth,
- Make decisions and perform their duties impartially, without bias because of personal financial interests or the interests of financial supporters,
- Regulate those who lobby public officials to prevent improper influence on public officials.

To accomplish this, Los Angeles County has implemented several County Code sections (mostly part of Title 2 - Administration) that regulate the activities of lobbyists, campaign finance disclosure and post-government employment. The Assessor has also adopted a Code of Ethics (Policy 2341-01-3) that requires most employees to adhere to policies on avoiding conflicts of interest, inappropriate outside employment, and accepting gifts in exchange for favors. State law also has provisions in the Government Code and the Revenue and Taxation (R&T) Code that prohibit influence peddling, require disclosure of financial interests and campaign contributions, and avoiding conflicts of interest upon pain of dismissal.

The County's lobbyist ordinance (Chapter 2.160) defines and requires registration for lobbyists while Chapter 2.190 prohibits candidates from accepting or lobbyists making campaign contributions. A proposed ordinance (section 2.165) would require registration of tax agents and prohibit certain activities by these agents.

During early 2012, documents emerged that allegedly show that the current elected Assessor and a few top managers in the Assessor's Office had been exchanging emails with tax agents and property owners regarding the status of

appeals cases and tax refunds. Some observers claim that these documents purport to show that certain tax agents or property owners received favorable treatment by the Assessor and his staff with regards to appeals cases. In addition, on October 18, 2012, John Noguez was arrested and charged with accepting \$185,000 in bribes in exchange for providing preferential treatment for certain tax agents. The ultimate disposition of this case and the fate of Mr. Noguez is currently a matter for public prosecutors and will not be covered in this management audit.

Communications during an appeal should be limited to the tax payer, the tax payer's agent, the assigned appraiser, the Assessor's Representative (AR) and their immediate supervisors. In addition to the (clearly illegal) bribery allegations. the emails show that the Assessor and some managers got involved in appeals and valuation cases outside the normal chain of command for such cases. These emails are very similar to ex-parte communication especially with regards to assessment appeals which occur in a quasi-judicial environment where communications should be regulated to some extent. Ex-parte communication is any communication between parties in a judicial matter that may compromise impartiality, introduce bias or suggest that these occurred. At worst ex-parte communication is coercive and can result in real bias. At best it may not have a material effect on a judicial outcome but it looks bad. Courts have rules on exparte communication that are very strict. Quasi-judicial environments like the AAB often do not require the same level of regulation (or even any regulation) but there should be enough control over ex-parte communication so that there is no appearance of bias, coercion, unequal treatment or impartiality among the parties.

This is vitally important in that the AAB deals with matters of taxation. A taxation system requires five conditions if it is to function well and be complied with:

- 1. Equity all taxpayers should be treated equally,
- 2. Certainty there should be no ambiguity about how taxes are calculated or when they are due,



- 3. Convenience it should be convenient for taxpayers to comply,
- Cost of collection and efficiency the costs of collecting should be minimized and administration should be efficient,
- 5. Neutrality taxes should not unduly impact consumption or production decisions on the part of taxpayers.

The appearance (or actual occurrence) of ex-parte communication in AAB cases threatens the first condition: equity. If taxpayers feel that the property tax system in Los Angeles County is being gamed by politically connected tax payers or contributors to the Assessor's political campaigns then they will be tempted to game the system themselves to re-establish equity. Obviously this can negatively affect compliance with the system and is a major threat to the financial stability of the County. Ex-parte communication may have compromised impartiality on the part of the Assessor (by treating taxpayers unequally) but it definitely compromised the reputation and integrity of the agency, and by extension, the property taxation system in the County.

The elected Assessor received 1,525 campaign contributions during the 2010 election cycle totaling \$1.14 million. Twelve percent of these contributions came from tax agents or their family members. Tax agents perform a paid service on behalf of taxpayers in that they perform the analytical work required for an assessment appeal and advocate on behalf of the taxpayer before the Board and/or with Assessor staff. This service is similar to hiring an attorney or an accountant to represent before a court or the I.R.S. and is perfectly legal. Any property owner can hire a tax agent.

While tax agents perform a valid service on behalf of property owners and taxpayers, their activities should be regulated so that the integrity of the appeals process (and by extension the property tax system) is not compromised. Specifically, the role of tax agents should be recognized legally and reasonable regulations should be in place for preventing ex-parte communication, exchanges

of gifts or gratuities, coercion, or conflicts of interest on the part of public officials like the Assessor.

#### Recommendations:

**Recommendation B1** – The County should amend the proposed County Code section 2.165 to prohibit contributions from tax agents and their immediate family members (by blood or marriage).

**Recommendation B2** – The County should send notices to all agents logged in the AAB's CRM system as taxpayer representatives for the previous twelve months with instructions to register as tax agents under County Code Section 2.165 or face enforcement action.

Recommendation B3 – The AAB should amend its Rules to designate certain parties in the CRM system when an appeal is filed (taxpayer and their representative) and within 10 days (assigned appraiser and an AR). Rules should be amended to stipulate that taxpayer representation should be limited to tax agents registered under 2.165. Rules should be amended to prohibit communication with any other parties except those designated until a case is cleared. County Code Chapter 2.165 should be amended to prohibit ex-parte communication during an active appeal by tax agents with any violation resulting in the loss of registration and a fine. AAB Rules should be amended prohibiting ex-parte communication by a taxpayer with an active appeals case with any violation resulting in the invalidation of their application. AAB Rules should be amended to prohibit ex-parte communication on the part of the Assessor or his/her staff with any violation resulting in disciplinary action (up to and including suspension) of the employee.

**Recommendation B4** – AAB rules should be amended to require taxpayers/agents (and family members) to disclose gifts, campaign

contributions or donations to the Assessor or any AAB member when filing an appeal.

**Recommendation B5** – The Assessor Code of Ethics should be amended such that the elected Assessor must recuse himself/herself (e.g., cannot discuss or take part) in any appeal or administrative review if he/she accepted any donations, gifts or campaign contributions from the taxpayer, agent or family members.

**Recommendation B6** – The Assessor should appoint a Chief of Staff whose job description should include acting as the point of contact for campaign donors, taxpayers or tax agents. Any contact received by the Chief of Staff should be directed to a staff appraiser or their immediate supervisor if a parcel is the subject of an administrative review or to an AAB-designated party if the parcel is subject to an appeal.

## Section C - Agency Scope

## Introduction

California law requires that the Los Angeles County Assessor's Office assess certain categories of real and personal property for property tax purposes. Our concern here is whether the Office's allocation of resources between the assessment of real property and the assessment of personal property is appropriate, considering the tax revenues received from the two broad categories of property. Put another way, what are the relative returns on investment (ROI) from assessing and taxing real property and personal property? That is, how much property tax revenue can be obtained from spending a dollar assessing real property versus a dollar spent assessing personal property? Can the ratios be improved by adopting more cost-effective policies and practices? Considerations other than ROI include whether changes in practices and performance would meet the approval of the BOE, which monitors the performance of assessors with respect to the law and its rules, and whether changed practices would put the County at risk of additional assessment appeals or other challenges.

Nationally, the trend has been to remove personal property from the property tax base, by exempting personal property altogether; by exempting categories, such as household personal property or business inventories; or by other means. The reasons vary, but cost-effectiveness is one. However, forty states, including California, tax one or more categories of business personal property. Some have practices that may be worthy of consideration by the Assessor's Office.

A difficulty in evaluating the cost-effectiveness of assessment practices is a lack of specific metrics that incorporate the *quality* as well as the quantity of inputs and

<sup>&</sup>lt;sup>6</sup> Under Article XIII of the Constitution, all property is taxable unless it is specifically exempted.



outputs. Adam Smith's fourth canon of taxation, namely "Every tax ought to be contrived as both to take out and keep out of the pockets of people as little as possible, over and above what it brings into the public treasury of the state," is perhaps the most basic. In short, it holds that the ratio of administrative costs to tax revenues should be minimized. Other commonly used ratios are:

- Cost per assessment (parcel of real property, personal property account, or both)
- Assessments per member of the assessor's staff (including assessments per appraiser)

If they are compared to benchmarks, qualitative elements can be incorporated, at least implicitly. See the section below entitled "Analysis and Conclusions."

Ways of evaluating assessment quality include:

- Ratio studies (see Section H, but personal property is rarely studied)
- Procedure audits (such as the BOE's assessment practices surveys)

Professional standards, such as the *Uniform Standards of Professional Appraisal Practice* (USPAP) and the *Standard on Personal Property Assessment* issued by the International Association of Assessing Officers (IAAO) provide limited guidance on cost-effectiveness, inasmuch as they often ignore costs.<sup>8</sup> They—and other works—provide helpful guidance on professionally accepted practices, however.

Appraisal Foundation, Appraisal Practices Board, 2012, Uniform Standards of Professional Appraisal Practice, 2012-2013 Edition, Washington, DC: Appraisal Foundation (http://www.appraisalfoundation.org). International Association of Assessing Officers, 2005, Standard on Valuation of Personal Property, Kansas City, MO: IAAO (http://www.iaao.org).



<sup>&</sup>lt;sup>7</sup> Adam Smith, 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Volume 2.

## The Personal Property Assessment Workload

Personal property is distinguished from real property (rights in land and buildings) chiefly by the movability of most personal property items. The movable nature of personal property gives rise to differences in the way it is assessed from real property assessment, which is described in Sections G and H.

In California, the classes of tangible personal property that are assessable include certain aircraft and vessels, trade fixtures, and business tangible personal property. This section focuses on the assessment of the general categories of trade fixtures and business tangible personal property. Differences in terminology and in the statistics in various sources make it difficult to produce a detailed and accurate snapshot of the appraisal workload in Los Angeles County (or to evaluate resource allocations, as discussed later). However, Figure C-1 gives an indication of the size of the overall assessment workload in the County in 2011.

Figure C-1 - Number of assessments by category of property: 2011

Category of property	Number of assessments	
Real property	2,358,000	
Single-family residential parcels	1,859,000	
Income residential parcels	247,000	
Commercial and industrial parcels	252,000	
Business personal property and fixtures	284,000	
Total	2,642,000	

Source: Los Angeles County Assessor, 2011 Annual Report.

The assessment process involves discovery, description, valuation, and assessment. Figure C-2 (on the following page) summarizes key differences between real property assessment and personal property assessment in the first three areas. Part of the description task is the classification of property for valuation and tax purposes. Also important is the determination of *situs*, which is

part of the discovery and description processes. "Situs" basically is the determination of which tax districts are eligible to receive tax revenues from a property. The situs of real property is easily determined, because it simply is the geographic location of the land parcel relative to the boundaries of tax districts that encompass it. Situs can be ambiguous for personal property, and depends on how situs is defined legally, how mobile the personal property items in question are, and where they are located on the lien date (January 1). Suffice it to say that the determination of situs can make discovery efforts more complicated in personal property assessment.

Figure C-2 - Procedural Differences in Real and Personal Assessment

Activity	Real Property	Personal Property		
Discovery	Surveys, building permits, field inspections, and photographic imagery are used in the "discovery" of land parcels and buildings.	Personal property statements. Other documents, and field inspections are used in the "discovery" of personal property holdings (that is, personal property is not always physically viewed). The initial focus is on identifying businesses that presumably own or hold taxable personal property and on the premises in which these businesses are found.		
Description	Each land parcel and building is uniquely described in assessment records. The description is found in cadastral maps and property records.	categorized by such things as type of		
Valuation	Each land parcel and its improvements (buildings) can be uniquely valued.	With few exceptions, items of personal property are valued alike.		

Personal property assessment rolls can be maintained by monitoring published information about businesses, field inspections, and the solicitation of information via personal property tax returns such as the BOE-mandated Form 571-L,

Business Property Statement.<sup>9</sup> The law requires that these statements be used whenever the taxpayer holds taxable personal property that cost \$100,000 or more. The Assessor has discretion to furnish them to any other taxpayer. Taxpayers who receive statements are obliged to return complete accurate statements by the deadline or be subject to a 10 percent tax penalty.

Assessors can choose how other approaches discovery and description are used. The Los Angeles County Assessor places great reliance on comprehensive canvasses of more than 300,000 premises each year with the aim of discovering premises with taxable personal property. Although professionally endorsed, canvasses are time-consuming, and both BOE and IAAO advise a judicious balance of discovery approaches. Appropriate use of business property statements is regarded as more cost-effective, except for the smallest, least formal businesses.

According to data published by the BOE, Los Angeles County processes some 108,000 business property statements annually, but it experiences backlogs in the processing of them. Figure C-3 (on the next page) shows the ratio of business property statements to total business property assessments (i.e., what percent of businesses get statements) comparing Los Angeles County to the statewide average.

<sup>&</sup>lt;sup>10</sup> See BOE, Assessor's Handbook, Section 504, Assessment of Personal Property and Fixtures, p 134, and IAAO Standard on the Valuation of Personal Property, p. 6.



<sup>9</sup> See BOE rules 171 and 172.

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
Los Angeles Statewide

Figure C-3 – Ratio of business property statements to business property assessments

Source: BOE

As seen in the chart, the ratio in Los Angeles County is considerably less than the statewide average. This shows that the County relies less on statements and more on other discovery techniques (like canvassing) than the State as a whole.

Nevertheless, the Assessor's Office prefers the canvass to issuing business property statements at least partly on productivity grounds. Premises are canvassed at a rate of about 14 per hour (one every 4 minutes), whereas it takes an appraiser 17 minutes to process a current-year statement (which occurs after clerical processing). The implications of this policy choice are discussed below.

A professionally recommended adjunct to a program of issuing and processing business property statements is an audit program, and California law requires audits and regulates how audit samples are to be selected. For Los Angeles County the total number of prescribed annual audits is 1,686. Half of this number

<sup>&</sup>lt;sup>11</sup>See Revenue and Taxation Code, §469 and BOE Rules 191 through 193.

(843) must be made from a pool of taxpayers with the largest assessments, which totals 3,372. The other half are conducted from the rest of the pool. In 2011, the first group included assessments greater than or equal to \$1.8 million. Each property in this pool must be audited at least once in every four-year period after the previous audit. An equal number of audits must be made from the pool of all other taxpayers. These audits must be selected in a fair and equitable manner, but the assessor may consider evidence of under-reporting. The Office reports that its audit program resulted in more than \$300 million in value being recovered.

# Resources Allocated to Personal Property Assessment

Unsurprisingly, the Los Angeles County Assessor's Office has a complex organization. Responsibility for real and personal property appraisal is divided first between District Appraisals, which comprises four district offices, and the Major Appraisals Division which is further divided into Real and Personal Property Appraisal units. In each district office and in Major Personal Property, there are a number of smaller units with various geographic and functional responsibilities. Approximately 165 line appraisers have personal property responsibilities in the agency. 12 Data from the T&V system can be used to allocate the resources devoted to 1) canvasses, 2) processing business property statements, and 3) audits. It appears that appraisers spend about 54 percent of their time on these activities, which time is about evenly split among the three. 13

In keeping with the need to process and store hundreds of thousands of personal property assessment records each year, the County has an AS/400-based unsecured roll system, and it has initiated a personal property imaging project (PIPP).14 The system justifiably is regarded as inefficient, because it requires extensive manual data entry.

<sup>14</sup> Statements for at least the four most-recent years should be stored and accessible under the statute of limitations that applies.



 $<sup>^{12}</sup>$  According to data submitted to the BOE, there are about 567 appraisal positions in total.  $^{13}$  Time allocations are based on a 1,750 hour work year.

# Analysis and Conclusions

Little comparative data are available for personal property auditor and appraiser workloads. However, productivity as measured by assessments per appraiser are presented below for large California counties in the following chart.

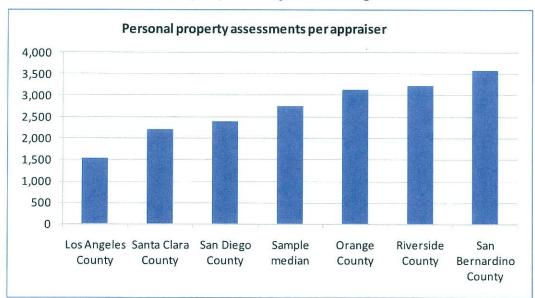


Figure C – 4 – Personal Property Funding and Staffing Benchmarks

Source: BOE

As seen in the chart, Los Angeles County is at the low end with regards to personal property assessment productivity. Although far from conclusive, this suggests the possibility of over-staffing in personal property assessment or low productivity from the existing staff.

In order to pursue this point further and to develop ROI estimates, we attempted to allocate the Assessor's budget for appraisal between real and personal property

assessment using the limited program-level data that was available.<sup>15</sup> Treating information technology and administration as overhead costs and using available data on staffing, estimates of the allocation between real property assessment and personal property assessment and associated estimates of ROI are displayed in Figure C-5.

Figure C-5 - Costs and Returns on Investments for Real and Personal Property Assessment: 2011

	Real Property	Personal Property
Allocation factors	0.676	0.324
Assessments per appraiser	6,156	1,545
Value per appraiser	2,705,158,743	378,621,989
Value per assessment	439,399	244,995
Cost per assessment	43.97	174.77
Cost per dollar of revenue	0.009	0.097
Revenue per dollar of cost	117	10

Source: BOE

The bottom two rows of the table tell the story: The ROI in assessing personal property is significantly less than that for real property. Based on the BOE data, the ratio is roughly 1:10. That is, a dollar spent on real property assessment results in \$117 in property tax revenues, whereas a dollar spent on personal property assessment results in \$10.

A document on the 2012-2013 budget allocated a total of \$150,675 among four program areas: appraisal, roll services, information technology, and administration. The sub-budget for appraisal was \$83,107,000.



Figure C-6 (below) presents a graphic image of the value distribution of personal property assessments. It shows that most assessments are below \$100,000 in value (i.e., the threshold for issuing business property statements). More than 93,000 assessments (33% of the total) have a value less than \$10,000. (The lowest assessment is \$2,001, while the highest is \$433 million.)

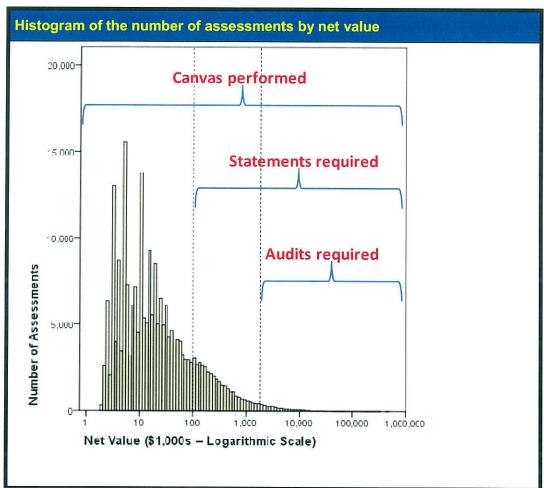


Figure C-6 – Assessments categorized by net value

Source: Assessor

Figure C-7 (below) shows conversely, that the greatest amount of value lies in properties assessed more than \$100,000, those that require property statements. Those that don't require property statements (and are canvassed 100%) contribute relatively little value. Yet, the total staff time expended on the two functions (i.e., canvass and property statements) are about equal.

Bar chart of the total levies & taxes of properties value below and above \$100,000

Derived from statements

Derived from canvas

Derived from canvas

Statement Velue Zone

Figure C-7 - Value added - properties below and above \$100,000

Source: Assessor

This is not to suggest that canvassing is not good practice; it is. However, a 100 percent practice is not mandatory nor is it a productive use of scare County resources. The fact that less than 5 minutes is allocated to each property during

the canvass suggests that some inspections are superficial at best, at least in relationship to the instructions in the Office's *Personal Property Handbook*.

Some low-value assessments are "retained assessments." That is, they are adjusted historical values based only on appraiser judgment. The Office does no research or analysis of typical personal property holdings in various business categories and sizes of establishments. Such square-foot guides (or models) could provide objective data to buttress appraisers' judgments.

There are several obstacles to a restructuring of the responsibilities of assessors. Tax districts likely would resist abandoning the personal property tax in California's current fiscal environment. The Assessor's Office has made substantial investments in training and documenting procedures, which would be stranded if personal property assessment were abandoned. There seems to reluctance to depart from the status quo or to consider practices not invented in the County. In addition there is little evidence of meaningful strategic planning or cost-benefit analysis to sort these issues out.

#### Recommendations:

**Recommendation C1** –The Assessor's Office should deploy its appraisal resources more cost-effectively. Initially, it should shift resources from the canvass to processing business property statements timely. It should develop a plan for canvassing businesses on a cyclical basis, so that all are visited once every four years. In time, the Office should seek additional ways to coordinate and share real property and personal property duties.

**Recommendation C2**–The County should make the acquisition of a more effective personal property system to replace the AS/400 a priority.

<sup>&</sup>lt;sup>16</sup> New businesses and similar developments should continue to be visited in the year in which the event occurs.



**Recommendation C3**–The Assessor's Office should initiate research on typical personal property holdings of common businesses as a means of validating appraiser judgment. The information gathered during audits could be compiled in square foot guides that consider the type of business, the size of the premises, and qualitative differences.

**Recommendation C4** – The Assessor in concert with other assessors, the BOE, and other stakeholders, should explore a legislative solution to the lack of cost-effectiveness in assessing low-value properties. Holdings of, say, less than \$10,000 could be assessed on the basis of a presumptive value (which owners could challenge) or be exempted outright.

# Section D - IT Management

# Structure and Management of Information Technology

Under best practices as defined by Information Technology Audit Professional Standards,<sup>17</sup> a properly structured and managed Information Technology (IT) division is capable of demonstrating good governance and management of IT, good practices in systems acquisition, development and implementation, and good practices in systems operations, maintenance and support.

# Legacy System Replacement

There are four major IT systems that enable the assessor's office to meet its goals:

- 1. The PDB, which relies on decades-old programming to generate the secured roll,
- 2. An AS/400 system, used to process the unsecured roll,
- 3. A network that enables myriad personal computers to access the multiple parts of the system, and
- 4. A data warehouse, based on PDB, containing data on the secured roll, together with over 50 additional applications built in house to improve workflow management and data processing for specific tasks (e.g. the paperless transfer system and the decline in value system).

In the last several years, the Assessor has made three unsuccessful attempts at replacing the PDB, the agency's enterprise system for the secured roll. A consultant's report on the lessons learned from the third attempt cited the lack of readiness of the agency to manage the organizational changes and technical risks

<sup>&</sup>lt;sup>17</sup> The trade group is ISACA, which once stood for Information Systems Audit and Control Association. The criteria are derived from published training materials.



of the project. It also faulted the lack of cost/benefit metrics. The former have been partially addressed by the inauguration of a program management office within the IT division. The lack of cost benefit metrics has yet to be addressed.

A second consultant's report<sup>18</sup> offered recommendations on an incremental rather than an all-encompassing approach to legacy system replacement, including the adoption of a service-oriented architecture (SOA) for integrating the efforts of future software vendors. This approach favors the build versus buy alternative of software development/acquisition.

Meanwhile, difficulties in performing data queries in PDB have been partially remedied by the addition of a data warehouse. An effort to integrate paperless processing capabilities into the preparation of the unsecured roll, however, failed to meet its objectives, despite being patterned after operational systems in other counties. This failure has led to high-priority exploration of possible remedies, including commercial off the shelf (COTS) software acquisition.

To minimize risk the agency should investigate the marketplace for customizable COTS software rather than an in-house solution. This would have the benefit of transferring the risk of project failure from the county, which does not have software development as a core competence, to a software vendor, who does. In minimizing risk to the agency, it also minimizes the need to identify promising software development tools and techniques and to invest in training current personnel in them.

# IT Governance

The office's current governance and prioritization policies follow two tracks. First, an annual Business Automation Plan (BAP) is prepared, primarily for consumption

<sup>18</sup> Sierra Systems, 2011, RFP #7A-2321.



by the County Chief Information Officer (CIO) and as part of the assessor's budget-approval process with the county CEO. The plan is not revised to recognize changes resulting from the budget process. Secondly, proposed projects have historically been passed through a business change request process involving approvals from four levels of personnel: 1) chief, 2) director, 3) special assistant and 4) assistant assessor.

Recently an IT program office was chartered, which defines a variety of roles, most not yet filled, including a program management office (filled), an enterprise architect (listed as contractor rather than employee, unfilled), various project managers and centers-of-excellence resources, and a number of committees.

The role of enterprise architect (currently unfilled) would be responsible for business-, information-, application-, and infrastructure architecture and would be charged with:

- Aligning IT strategy and planning with the organization's strategy,
- Optimizing IT management approaches and methodologies,
- Overseeing the activities of solution architects,
- Managing risks through appropriate standards and policies,
- Developing policies, standards and guidelines that direct the selection, development, implementation and use of IT within the organization, and
- Building employee knowledge and skills in specific areas of expertise.

<sup>&</sup>lt;sup>19</sup> Although the 2005 strategic plan and the Business Automation Plan do not appear to be "living" or governing documents, it is noteworthy that the only effort to revise the current 2005 version of the strategic plan mentioned above emanated from the IT division.



# Workaround Systems / Data Silos

To compensate for the drawbacks of the PDB and the personal property system, a proliferation of standalone systems have been developed over the years. Temporary Excel spreadsheets and Access or SQL Server databases have been developed to enter, summarize and analyze data that would be far better processed and preserved in a unified system, especially one that offered additional safeguards against common errors.

These workarounds and standalone databases, often referred to as the data silo phenomenon, limit the effectiveness of employees' efforts. Potential questions of personal vs. real property, for example, cannot be readily resolved and documented in particular cases. Perhaps more significantly, important data cannot readily be shared after being captured at great expense. This is particularly the case with income, expense, and capitalization-rate data, discussed in section H, although also the case in connection with the other valuation approaches.

In addition, development tools from the Microsoft Office ecosystem have been used by appraisers in the districts to build applications that automate retrieving and formatting extracts from such data pools to prepare for appeal cases. Although such labor saving initiatives are laudable, and the data being kept on shared drives are less at risk than would otherwise be the case, such a fragmented approach is not reflective of best practices in safe guarding assets, nor does it maximize their value.

## Controls

Control documentation exists for trouble tickets, business change requests, and the status of current IT projects although lapses were found in the documentation. One list of business change requests and two versions of its successor, a project portfolio priorities matrix, were obtained, although they compared imperfectly.



Only two of the four change requests that had been mentioned to us in the course of our initial interviews with users could be traced to such records. The priorities matrix did not list items completed or denied to provide assurance that things had not been erroneously neglected.

Our comparison of projects listed on the biweekly status report with those on the annual Business Automation Plan (BAP) yielded some notable differences. About 12 projects worked on in the current period were not part of the BAP, while 8 other projects were in the BAP but were neither complete nor addressed in the current bi-weekly report.

There is a lack of business case and cost / benefit documentation, although no suggestion of profligate or otherwise inappropriate spending was found. Experience gained in the use of cost / benefit and risk analyses, even in connection with smaller scale projects, where it is less intrinsically warranted, would increase staff proficiency in this important area.

System documentation, especially from a user's perspective, is a resource that is not well developed or managed, and in fact is scarcely available for the various systems. The management auditors requested manuals or users guides to the secured or unsecured systems but after a month of requests, none were produced. Instead we were given policy type manuals, one training PowerPoint, and twenty linear feet of design documents for a desired replacement system were produced. Ultimately twenty miscellaneous sets of instructions on developer related specialized topics were produced, but nothing was provided that addressed the test question: "how would a user enter data in the system to generate a cost-approach value?"

# Contracting strategies and policies

A case of contracting failure has recently assumed significance for the assessor. Dissatisfaction with the performance of the software company providing contracted support for the unsecured roll has escalated to the point where the County has determined that its best course of action is to seek to replace the system in its entirety. The poor support stems, in part, from the lack of any service level agreements between the assessor's IT division and any of it suppliers and from the lack of any contractual caps on service/support rate increases. A contributing factor in the unsecured system issue is the lack of recourse the county has in connection with the service failures. Since the computer code is proprietary and the source code is not licensed or available, the County has no ability to provide its own support or to contract with third parties in case of dire need.

A welcome feature of the County's contracting regulations is the freedom it has allowed the assessor's office to engage in market research. This has allowed the County to issue requests for information on system capabilities and to permit potential vendors to hold "deep-dive" demonstrations of their systems in the County's offices, sometimes using samples of the County's own data, without fear of running afoul of procurement regulations.

# Management of IT-related risks

IT risks are typically quantified on a dollar basis (e.g., sums of losses of various magnitudes multiplied by the estimated probabilities of each occurring), but this sort of quantification is not being done at the Assessor. The agency's IT risk analysis, as formalized in business change request procedure (assr-151), is to characterize the probability and magnitude (high, medium, low) of each of several types of risks such as risk to roll processing, criticality to administrative operations, criticality to IT operations, and non-compliance risk. More recent risk characterizations have appeared in the project portfolio priorities matrices, where

"strategic risks" are again indentified as high, medium, or low. The type of risk is characterized by free text, along with its probability and impact (high, medium, and low).

Risk characterizations as used by the agency are too brief and don't provide enough detail to perform a proper assessment. Risk descriptors should include the identification of various contingencies and the marginal costs expected to be incurred in addressing them. For smaller projects less formal quantification may be appropriate. Greater attempts to quantify risk, along with greater attention to developing solid metrics to test whether performance expectations are being met and to raise early warnings when interim results become dubious are needed. To gain greater proficiency in the process, we would encourage the use of a formal approach even for smaller projects where it would normally not be used.

#### Recommendations:

**Recommendation D1** – The Assessor should expedite filling the position of enterprise architect as presently envisioned.

**Recommendation D2** – The Assessor's office should continue to research IT and appraisal developments in other parts of the state for their potential application as legacy-system replacements in the county, irrespective of supposed constraints imposed by technology or regulation and should consider COTS alternatives to in-house development.

**Recommendation D3** – The Assessor's office should engage routinely in cost benefit analyses, even for smaller projects, in order to develop proficiency that will be crucial in connection with future larger scale undertakings.

Recommendation D4 – The Assessor's office should provide a supported IT system for collecting, entering, analyzing, and presenting income,



expense, and capitalization data in support of the income approach to valuation, and it should ensure that such resources are pooled for access by all the appraisers who have potential need of such information.

**Recommendation D5** – The Assessor's office should provide documentation on how users are expected to interact with its IT systems.

**Recommendation D6** – The assessor's office should consider integrated products addressing the secured roll as well as the unsecured roll during its market research on alternatives to its systems that support its unsecured roll.

**Recommendation D7** – The Assessor's office should amend its contracts with vendors to incorporate service level agreements.

# Section E - Workload Management / Statistical Reporting

Standard workload data (agency-wide and unit-level) is notoriously difficult to obtain at the agency and is of questionable reliability. Routine statistical data such as the number of appeals or workload backlogs require specialized assistance and queries to various data sources. This is unusual for an agency that trades in numbers and statistical modeling. It is partially explained by the limitations of the agency's workload management system: the T&V system. T&V tracks work activities and purports to determine staffing resources needed for workloads, but the workload standards (e.g., time required to perform a property transfer) used in the system are based more on actual time allocations rather than a standard to be met. The standards have become the dependent variable to be adjusted while the workload and the staffing available are the independent variables. Workload and backlog numbers in the T&V system are also suspect according to agency managers.

Forecasting and statistical reporting is currently performed by a small group of Assessor staff that report through the Special Projects unit within the IT Division.

Assessed value forecasting has become more difficult because of the impacts of the recession. Much of the roll is now valued at FMV which is typically less than the adjusted base year value. Values are therefore, more market driven rather than policy (i.e., Proposition 13) driven and much more volatile. This is likely to be the case for a few more years as the property markets recover and values are restored to their adjusted base year values. In the meantime, reporting and forecasting on roll value is likely to be more difficult than it was in the past. Forecast volatility is accentuated by the poor state of the statistical reporting systems at the agency.

In the past year, the agency has prepared roll forecasts that have met with skepticism from the BOS about their accuracy or have presented unexpected and significant changes in value. Assessor staff has presented explanations regarding this variability and lack of predictability but the BOS has expressed a lack of confidence in the veracity of the Assessor's forecasts and backup explanations. During the spring of 2012, the County retained a consulting firm to review the Assessor's roll value forecasts for December 2011, and April and May 2012. The consultant largely confirmed the forecasted value presented by the Assessor, but made a few recommendations on how the forecasts could be made more accurate.

Subsequent to the consultant's report, the County CEO and the BOS have been investigating the feasibility and potential benefits of forming an inter-agency forecasting group to formalize the tax roll forecasting process and improve the accuracy of forecasts. We believe that it would be significantly more cost-effective to retain a valuation forecasting consultant (like the firm hired earlier this year) to review the forecasts prepared by the Assessor than it would be to hire or assign staff for a specialized forecasting unit. The volatility of the forecasts should decline in the next few years as more property values stabilize and approximate their adjusted base year values. This will improve the accuracy and predictability of forecasting. At some point it the near future, the need for a forecasting specialist will likely disappear.

However, the Assessor staff that work on forecasts should formalize their protocols and procedures for developing forecasts. This will improve confidence in the forecasts and make it easier for a consultant to review, suggest corrections and comment on the Assessor's forecast. Currently, Assessor protocols and procedures for preparing forecasts are not well documented.

#### Recommendations:

**Recommendation E1** – The Assessor should form a small forecasting unit (reporting to the Chief Deputy Assessor) to develop protocols, definitions



and data sources for statistical reporting and workload management purposes. This unit should be comprised of the current staff that perform forecasting and statistical reporting functions.

**Recommendation E2** – The County CEO should retain a real property value forecast consulting firm to perform periodic reviews and attestations of tax roll forecasts prepared by the Assessor. The consulting firm would report to the CEO but work with the Assessor's forecasting unit.

**Recommendation E3** – The Assessor's Office should explore ways to refine its production reporting system to incorporate returns on its investments and its resource allocations. It may be desirable to simplify the system so that it focuses less on the variety of work activities and more on work outcomes generally.

# Section F - Appeals

# The Appeals Process

Property owners who wish to appeal a property assessment or settle an ownership issue can file an appeal with the AAB, a unit of the Executive Office of the County's BOS. Assessment appeals is a quasi-judicial process meaning that decisions

handed down have the force of law, but are not rendered by judges. The legal authority of the AAB derives from the R&T Code section 1601 et seq. The Board was created in 1964 and currently operates five Boards and several hearing officers in the basement of the Hall of Administration. Other hearing officers hold hearings in District offices around the County, although the larger or more complex cases are handled downtown. Rules for processing appeals and



An appeals board hearing

providing due process are promulgated by the BOE<sup>20</sup> and in local rules adopted by the AAB.<sup>21</sup> The current assessment appeals process is shown in Appendix D.

The Assessor is represented in AAB cases by a small group of experienced ARs. The ARs are part of the Assessment Services Unit within the Roll Services Division. Subject to limits set in policy, they have discretion to recommend and agree to assessment value reductions without oversight from superiors. ARs have

<sup>&</sup>lt;sup>21</sup> Rules – Assessment Appeals Board, LA County BOS, June 29, 2010.



<sup>&</sup>lt;sup>20</sup> Assessment Appeals Manual, CA BOE, May 2003.

the legal standing of the elected Assessor for an active appeals case.<sup>22</sup> The appraiser who appears at an appeals hearing is considered an expert witness for the AR. The assigned appraiser may not be the one who actually prepared the original appraisal, particularly if the case originated from a District office. The policy that governs the role, authority and responsibility of the AR is Policy 4080-1 dating from 2007. The current policy gives broad discretion for recommending value reductions to ARs with approval thresholds starting at \$5 million.<sup>23</sup>

Key criteria for evaluating a quasi-judicial process include provision of adequate due process protections for taxpayers and the County. Due process should provide for easy access for taxpayers into the appeals process, adequate opportunity for both the taxpayer and the County to a fair hearing, and a relatively quick decision unless these rights are waived for continued discovery purposes. ARs should represent the interests of the County and the Assessor in AAB cases by working with taxpayers, boards, and hearing officers to determine FMV.

# Filing Volumes and Backlogs

Historical filing volumes for the AAB range between 7,000 to 10,000 applications a year. Beginning in FY 2007-08, filing volumes increased significantly to over 40,000 annual applications. This is, of course, related to the severe economic and housing recession which began in 2008. The number of filings per appeals board (there are actually five separate boards within AAB) is approximately 7,500 cases, about double the average of 3,200 for large California counties. Filings have stayed well above 30,000 applications a year since the housing recession started. Filing volumes are beginning to moderate now, but will probably not approximate historical levels for several years as application backlogs are worked off. In addition, a significant portion of the County's parcels are now valued at less than

A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 2010-11, February 2012, California State Board of Equalization



<sup>&</sup>lt;sup>22</sup> R&T Code 1610.2

<sup>&</sup>lt;sup>23</sup> Policy 1502-1, Special Value Change Approval

the adjusted base year value.<sup>25</sup> Continued high appeal volumes should be expected while values recover and assessed values are restored to adjusted base year values. Figure F-1 shows AAB filing volumes for the last several years.

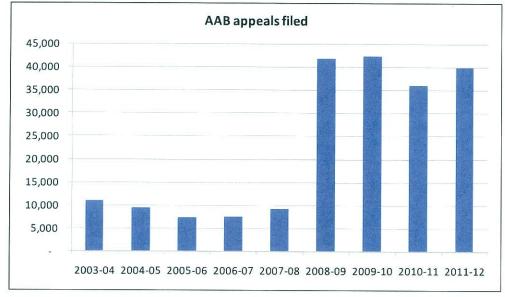


Figure F-1 – Historical Appeals Filing Volumes

Source: AAB

About half of all cases are withdrawn at some point, or the taxpayer does not appear at a hearing. Many of these cases are withdrawn because the Assessor has already reduced the value of the parcel through an administrative review and the adjudicated value is satisfactory to the taxpayer. Another potential cause of the high number of withdrawals is that there is no cost for filing an assessment appeal so there is no impediment for filing frivolous cases. This results in wasted staff time (both in AAB and the Assessor) preparing for a hearing that ultimately does not occur. Several large California counties charge a filing fee. \$35 is the typical fee charged.

<sup>&</sup>lt;sup>25</sup> The adjusted base year value (usually the sales price) is adjusted upward each year by the constitutional limit established by Proposition 13.



Of the cases that do proceed (about half the caseload), most are settled prior to a full hearing, or disposed of by a hearing officer. Decisions rendered by a full Board constitute a small portion of the calendar. The R&T Code section 1604(c) stipulates that AAB decisions must be rendered within two years. This could pose a problem in a processing environment with high filing volumes and backlogs that exceed 43,000 cases (as of 6/30/12). In fact, of cases that are not disposed of quickly, taxpayers are requested to sign a waiver of the two-year rule as a condition of continuing a case beyond the first hearing date. In order to deal with backlogs more efficiently, AAB management has recently adjusted the weekly schedule so that administrative matters handled by the boards (e.g., reinstatements of no-shows, invalid applications) are done on Fridays, when many appraisers are gone, freeing up the balance of the week for proceedings that can clear calendars.

# Role of the Assessor Representative

As mentioned earlier, most cases are withdrawn, decided by a hearing officer, or settled prior to a full hearing. Settlements are negotiated between the taxpayer and/or their representative (usually a tax agent that works on a contingency basis), the assigned appraiser and the AR. Settlements that are negotiated at least 30 days prior to a hearing date are processed as a stipulation that is reviewed and signed by County Counsel. Stipulations are relatively infrequent. The majority of settlements are negotiated on the day of hearing in the cafeteria across the hall from the AAB hearing rooms. ARs and appraisers show up for hearings or informal settlement conferences with a recommended value that is typically lower than the current enrolled value (due to declining values) and that they feel reflects FMV. Taxpayers and/or tax agents will then typically present information that suggests an even lower value. It has been suggested that ARs have been proposing amended recommended values that were significantly lower than the original recommended values in order expedite settlements and clear the calendar. It's also been suggested that ARs were lowering recommended values over the

objections of appraisers who felt that the original recommended values were accurate. There is no empirical data that could show whether recommended values have been reduced inappropriately by ARs as recommended values (original or amended) are not recorded in any system. However, in our observations of these informal settlement conferences we did not observe any evidence that ARs were reducing recommended values that could not be supported by data. Settlement conferences were professional, data-driven and fair. ARs would suggest a reduced recommended value if data warranted it. Otherwise they invited the taxpayer or tax agent to advocate for their position before the Board.

According to several interviewees, any inappropriate negotiating on the part of ARs in the recent past seemed to be limited to two former ARs that have since been rotated to other areas in the agency. In the past, some ARs served in this capacity for several years and may have come to identify too much with tax agents and/or were instructed to promote settlements (whether or not they reflected FMV) as a way to deal with rapidly increasing appeals cases. While this cannot be proven empirically the County should take steps to avoid an over-familiarity between ARs and tax agents that could impair their objectivity.

The Assessor is in the process of updating the policy governing the role and authority of ARs (Policy 4080-1) to emphasize the AR's role as an advocate for the agency. The proposed amended policy also decreases the discretion of ARs in changing recommended values, ties thresholds for obtaining management approvals on determining recommended values to the thresholds used in the Special Value Change policy (1502-1), and increases the reporting requirements of ARs for case dispositions. In addition, a new Guideline was issued in August 2012<sup>26</sup> that establishes a set of approval thresholds for reducing recommended values during informal settlement conferences that are based on percentage

<sup>&</sup>lt;sup>26</sup> Guidelines for Assessment Appeals, 8/2/12



decreases. These changes will require more accountability on the part of ARs but do not address some of the underlying problems with tax agents such as ex-parte communication (addressed in Section B). In addition, the amended 4080-1 policy and the new Guidelines are not well coordinated with the requirements of the Special Value Change Approval policy (1502-1):

- Between the two policies, an AR (or another staffperson) may have to complete up to three different reports that duplicate the same type of information: the Special Value Change report (RP-335), the Assessor's Representative Recommendation report (Exhibit I in policy 4080-1), and the AABS Case Activity Report.
- 2. Approval thresholds for ARs indicated in Policy 4080-1 and the new AR
  - Guidelines refer to Policy 1502-1, but they are not consistently defined since one set of thresholds is percentage based and the other is dollar-based. It may be confusing regarding which thresholds apply to ARs.
- The Real Property Summary form (AABS3 form) lacks the signature lines to support the approval requirements of the new AR Guidelines.



A hearing officer working with an appraiser and a tax agent. Both will typically work with the same hearing officer for several hours on a batch of cases.

It seems clear that these policy documents are still in the process of being refined and coordinated. This lack of clarity regarding the two policies and the August 2 Guidelines could result in confusion on the part of ARs as to their authority to change parcel values and could result in value reductions that exceed authorized parameters or inadequate documentation of those decisions.

# **Due Process Provisions**

The assessment appeals process as it is currently structured in local policy and practice affords an excessive amount of due process to taxpayers and their agents. The vast majority of cases (those that are not withdrawn prior to hearing or where the taxpayers fail to appear) are continued at least once and frequently more. Typically continuances are granted at the request of taxpayers and, more frequently, agents because they are not prepared at the time of the hearing. Continuances (and withdrawals on the day of the hearing) are granted by one of the Boards during their regular session as calendared items. This obliges the parties to sit in the hearing room waiting for the item to be called whereupon the continuance or withdrawal will be granted by the Board. This waiting around (which can amount to several hours) is a drag on the productivity of Assessor staff who could be out in their district offices appraising property. It is also a waste of time for AAB staff, taxpayers and their agents. Conditions on continuances appear to be minimal (other than the two-year time limit be waived). The entire process is a mechanical, administrative process that is conducted in a full, quasi-judicial proceeding. In fact, most items on the daily calendars result in either withdrawals or continuances or are disposed of as settlements (arrived at in the adjoining cafeteria). Actual hearings are a relatively small portion of the calendar.

Placing so few restrictions or conditions on continuances is not reasonable since the discovery requirements for AAB cases are not especially extensive or onerous. BOE rules for discovery and information exchanges are well documented and provide sufficient time for exchanging the information typically needed (e.g., rent roll, income statement, expenses). It appears that tax agents are frequently not prepared for hearing because they either haven't prepared the case or their clients have not provided the necessary information.

Settlements are also presented and accepted in a routine, mechanical fashion before the Board. There is typically little discussion or questioning. Again, the

parties are obliged to wait in the hearing rooms for their items to be called whereupon they are adjudicated quickly and with little deliberation. This is another drag on the efficiency and productivity of Assessor and AAB staff as well as the taxpayers and their agents.

Per BOE rules<sup>27</sup> for appeals the burden of proof is on the taxpayer to show that the Assessor erred in his/her duties for all cases other than owner-occupied single family residential parcels. Yet the Assessor routinely agrees to continuances requested by tax agents if they are not prepared. This may constitute good constituent service for taxpayers but it seriously impedes the clearance rate of appeals cases and degrades the efficiency of appraisers and ARs as they are obliged to appear for hearings that never occur. With such high filing rates and backlogs this is more due process than is necessary for what are relatively simple cases.

# Data Interface Between AAB and the Assessor

When an appeal is filed with the AAB, a case is established in the AAB's calendaring and case management system called the CRM system. CRM schedules cases and boards and produces a daily calendar. CRM also produces a nightly upload of data into the Assessor's appeals case management system, the Appeals Tracking System (ATS). The Assessment Services Division uses ATS to produce their own daily calendars and to schedule the appropriate appraisers and ARs for the appeals workload.

Data uploads from CRM can only be performed in text format which results in numerous data conversion issues. These conversion issues result in reliability problems for the data at the Assessor including reports and screen queries that are missing data and require additional processing. This impairs the ability of

<sup>&</sup>lt;sup>27</sup> Rule 321, Assessment Appeals Manual, Calif State BOE, May 2003



Assessor management staff to schedule staff for appeals cases and to manage the appeals caseload.

#### Recommendations:

**Recommendation F1** – The County should amend Chapter 2.44 of the County Code to charge a \$35 fee for filing an assessment appeal. This filing fee will help to defray the cost of the program and will help to discourage frivolous filings.

Recommendation F2 – The AAB should amend Board rules to appoint a hearing officer to handle only continuances, withdrawals, and accepted recommendations rather than have these items presented to a board. Rules should waive appearance of parties once a hearing officer has approved the withdrawal, continuance or accepted recommendation. Withdrawals, continuances, and accepted recommendations should then be subject to Board review in the same fashion as other hearing officer decisions. The new AAB Case Activity Report can be used by the parties as a tool to document withdrawals, continuances, and accepted recommendations for review and approval by the hearing officer. Appendix D shows the proposed appeals process.

**Recommendation F3** – The AAB should amend rules such that parties to an appeal must show true hardship for second (or subsequent) continuance requests. Hearing officers presented with continuance requests should deny requests except for hardship. Owner-occupied SFR cases (without tax agent representation) should be exempt from this rule. Appendix D shows the proposed appeals process.

**Recommendation F4** – The Assessor should refrain from sharing case data with applicants before hearings except for formal exchange requests.

**Recommendation F5** – The Assessor should continue the practice of rotating ARs every three years.

Recommendation F6 – The Assessor should streamline value reduction reporting and approval authority. Policy 1502-1 should be limited to approvals and reporting on administrative reviews. Policy 4080-1 should solely govern determination of recommended values, AR responsibilities, approval thresholds, authority, and reporting requirements. References in Policy 4080-1 to approval authority levels in Policy 1502-1 should be omitted. Approval thresholds in Policy 4080-1 for determining recommended values should be based on percentage-based according to a revised Policy 1502-1 (See Section G). Approval thresholds for subsequent adjustments to those values should be percentage-based similar to the thresholds presented in the August 2 Guidelines for Assessment Appeals. Policy 4080-1 should then replace and supersede the August 2 Guidelines.

**Recommendation F7** – The County should reengineer the AAB's CRM system to incorporate Assessor's scheduling and data requirements and repair data conversion issues.

**Recommendation F8** – The Assessor's ATS system should be modified so that the assessor's original and adjusted recommended value is recorded for appeals cases.

## **Section G – DIV Processes**

Assessed value reductions have historically not been a big part of the Assessor's workload as assessed values typically lag FMV due to Proposition 13 valuation limits. Proposition 8, passed in 1978, requires values to be adjusted to FMV when FMV falls below the adjusted base year value. As seen in figure G-1, starting in 2008-09, the volume of Prop 8 decline-in-value applications skyrocketed as the impact of the real estate recession was felt across the Country.

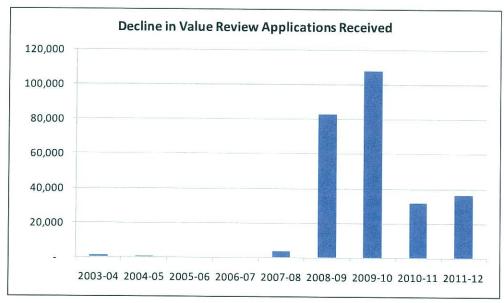


Figure G-1 – DIV Application Volume

Source: LA County Assessor

In addition to applications from taxpayers, the agency has been conducting proactive valuation adjustments based on mass appraisal methods. These proactive reviews, non-existent before 2008, have averaged nearly a half-million parcels in the last four years.

What for years had been a minor part of the agency's workload suddenly became a mass transaction work environment. The agency developed policies and systems for dealing with the huge volumes during 2010. Among these was the Special Value Change Approval Policy (1502-1) created in 2010 and the DIV system developed in 2010 that facilitated expedited appraisals of parcels for taxpayer-requested valuation reviews. These policies and systems should have controls that prevent value reductions below FMV while allowing the throughput necessary for such huge volumes.

The DIV system is a workflow-based system that stages applications for Prop 8 reductions and assigns them to appraisers. For residential properties, the system selects comparable properties (comps) based on several property characteristics, and presents them to appraisers for analysis.<sup>28</sup> Appraisers then make adjustments to the appraisal based on differences between the subject property and the comps and determine a proposed value for the property. This proposed value is reviewed by a supervisor prior to being enrolled. The process for commercial/industrial properties is similar except that valuation is based on financial data for the property rather than comps. Maps for both processes are presented in Appendix D.

The DIV system requires that all value reductions be approved by a Supervising Appraiser before being enrolled. However, a Supervising Appraiser can delegate his/her approval authority to another staffperson, including a staff appraiser such as the appraiser who performed the original appraisal. This delegation authority feature can result in appraisers approving their own work. This could result in valuations significantly less than FMV with a commensurate loss in property tax revenue.

Policy 1502-1 has approval thresholds for value reductions that are dollar-based and are categorized by either District or Major Property appraisals. The thresholds

<sup>&</sup>lt;sup>28</sup> A detailed discussion of the valuation methods incorporated into the DIV system is found in Section D.



start at \$5 million for District appraisals and \$10 million for major properties. Since the thresholds are dollar-based, a property can be reduced by a significant percentage and if it is valued at less than \$5 million it would fall under the thresholds for Policy 1502-1 and only require a supervisor review. And, as mentioned earlier, this review could be delegated back to the appraiser who determined the significant reduction in the first place.

Even for valuation reductions that exceed the approval thresholds in Policy 1502-1 there is no functionality in the DIV system for these valuations to be reviewed by the managerial levels specified in the policy. Policy 1502-1 does specify a form (RP-335) to be completed by the appraiser and approved by the appropriate manager, but the DIV system itself lacks these controls. Significant valuation reductions could be enrolled without any significant managerial review.<sup>29</sup> Again, this could result in values enrolled that are significantly less than FMV with a commensurate loss in property tax revenue.

One final control on inappropriate value reductions is the exception testing performed by the Special Projects unit (part of IT). This exception testing looks at any value reduction over \$1 million. These exceptions are then sent to the District or Chief of Major Real Property where the appraisal was done for review.

#### Recommendations:

**Recommendation G1** – The Assessor should amend Policy 1502-1 so that, in addition to dollar-based thresholds, percentages should be used based on the degree that a value reduction exceeds the general market direction. Percentage-based thresholds should take precedence over dollar-based thresholds.

<sup>&</sup>lt;sup>29</sup> The County's District Attorney is investigating a staff appraiser who allegedly enrolled significantly reduced valuations for a number of properties in the County.



**Recommendation G2** – The Assessor should program the DIV system so that the approval thresholds found in Policy 1502-1 are programmed into the system with pass-word based approvals replacing the use of Form RP-335. Value reductions exceeding 1502-1 thresholds should be to the Chief, Director or Assistant Assessor designated in the policy.

**Recommendation G3** – The Assessor should modify the DIV system so that approval authority delegation for appraisals not selected for enhanced review under Policy 1502-1 is limited to a Supervising Appraiser or a Principal Appraiser.

# **Section H - Valuation Methods**

# **Erosion of Valuation Capabilities**

Since the passage of Proposition 13 in 1978, California assessors largely have not had to perform the analytical work of valuing property at FMV. Instead, valuation in the State has been an exercise in factoring up prior assessments by a standard inflation factor or enrolling the sale price of subsequent transfers as the new base year assessed value. With the recent collapse of the real estate market, the need to use computer assisted mass appraisal (CAMA) techniques to track market values has assumed much greater significance. CAMA is the computerized process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing. Properly administered, the development, construction, and use of a CAMA system results in a valuation system characterized by accuracy, uniformity, equity, reliability, and low per-parcel costs. Failure to use CAMA optimally deprives the assessor of any ability to do two essential things: perform appraisals efficiently and measure the accuracy of appraisals so as to continuously improve the process. This leads ultimately to less accurate assessments and such consequences as under assessments, increased workloads in the informal and formal appeals channels, forecasting difficulties, and the potential to fail periodic BOE audits, which, in turn, may jeopardize State subsidies of the county's assessment operations.

Reversing this deficiency will require improvements in the areas of the sales-comparison-, cost-, and income-approaches to value, as well as a revival of quality assurance / quality control (QA/QC) through statistical testing, the hallmark of mass appraisal methods. Given the number of parcels in the county, it is not feasible to shun CAMA techniques in favor of single property appraisal techniques, especially when large numbers of properties are changing values.

A first step in this process is the use of modern CAMA methods to produce and preserve at least first-draft estimates of the market values of essentially all real property parcels according to the three standard methods: sales-comparison, income, and cost. Each will be covered in detail below.

# Sales Comparison Method

The Assessor's current sales comparison approach starts by building an initial multiple regression analysis (MRA) based model of property value using decades old programming of a standard general-purpose statistical package (SAS). This model is used, however, not as the basis for an appraisal, but rather only to qualify sales comps, (i.e., to determine which of them seem to be valid indicators of market value untainted by extraordinary financing, intra-family transfers, personal property, or other extraordinary considerations). This step is then followed by appraising the property by adjusting the reported values of the now "validated" comparable sales for differences with any given subject property. The latter step emulates the process used by independent fee or mortgage appraisers and is called the emulator.

The initial MRA/SAS component suffers from a number of problems including an inability to model for multiplicative (or percentage) differences among properties rather than merely additive (dollar) differences, an inability to constrain coefficients, an inability to incorporate transformations as required by modern CAMA practitioners, and an inability to detect and correct appropriately for a variety of statistical difficulties that arise during modern CAMA modeling efforts.

In addition, the office has no CAMA modeler, relying instead on the coordinated efforts of an IT Senior Application Developer and an Appraisal Specialist I. In the rest of the country, valuations generated by modern MRA approaches are generally more accurate than any alternative and are commonly enrolled as

assessed values. Los Angeles County, in contrast, uses the SAS/MRA results chiefly as a screen or filter for determining whether reported sale prices appear reasonable.<sup>30</sup> It also is used as a filter for determining whether automatically generated appraisals under the DIV program seem reasonable or should be further fine tuned.

The emphasis on emulator or single-property-appraisal methods over CAMA methods reportedly stems from a consent decree following a contested appeal, in which a poorly explained and poorly developed MRA-based appraisal was held to be less credible than an emulator-type approach.<sup>31</sup>

In addition to problems with selecting and adjusting comps, location is not well captured in the valuation processes. The enterprise system for the taxable real property role, the PDB, has limited location data such as a corner lot. The County's extensive geographic information system (GIS) contains additional data such as elevation, views, distances from subjects to comparable sales, distances to (or inclusions within buffers around) value influences such as golf courses, sea shores, pollution sources, traffic nodes/corridors, etc. However, appraisers can't access GIS during the appraisal process as PDB and the GIS have no dynamic linkage. Such linkages could also eliminate a problem caused by PDB's inability to link view information with condominiums, since it is carried in the PDB data structure only as an attribute of land, not improvements to land.

In addition to lack of linkages, the emulator suffers from other problems. Much of the information recorded on the paper property data records (PDRs) is not available in the PDB system, from which the data used by the emulator is

<sup>&</sup>lt;sup>31</sup> Guthrie Settlement, Superior Court of the State of California, County of Los Angeles, Case No BC 196373, November 14, 2002. Evidence from the current use of the MRA/SAS facility, formally called ADS 13, suggests that it compares very poorly with current practices in the development of sales-comparison valuations as done in current CAMA systems. See *Fundamentals of Mass Appraisal*, IAAO, 2011, pp. 249-361 and *Mass Appraisal of Real Property*, IAAO, 1999. It is noteworthy that the text of the settlement agreement explicitly does not bar the introduction of improved technology along lines similar to the technology at issue in that case.



<sup>&</sup>lt;sup>30</sup> Best practice as articulated by the International Association of Assessing Offices (IAAO) in its Standard on Ratio Studies and its Standard on Verification and Adjustment of Sales calls for this process to be done via questionnaire forms or contact with the buyer or seller, not merely statistical filtering as described here. In practice, however, many jurisdictions and contractors fail to meet the requirements of the latter standard.

<sup>31</sup> Guithrie Settlement Superior Court of the State of Court and Court of the Court of the State of Court of the Court of

extracted. Thus, although comparable properties with particular characteristics recorded on a PDR (e.g. slate roof) may exist on paper, such data cannot be retrieved for analysis. Many of the data elements once maintained in the PDB are now indicated as "currently no posting is being done to this field."

The emulator process also suffers from poorly justified parameters used to select comparable properties and to perform the adjustments to the subject property to complete the appraisal. In modern CAMA systems, the parameters for such emulator-like selection and adjustment operations are derived from MRA/SAS-like analyses, although done with much greater sophistication, perhaps using locally or spatially weighted regression and datasets covering a longer time span with defensible adjustments for time.<sup>32</sup>

Another serious shortcoming of the emulator-type approach is that it introduces an unnecessarily high degree of random sampling variability into the process. Samples sizes of three are inherently less trustworthy than those of 50 or 100. Small sample sizes, generally employed by single property appraisers, are an artifact of manual practices dating from a time when a sole-practitioner would not be able to handle larger numbers of comparables manually. In contrast, modern CAMA systems use locally weighted regression as regards both geography and other attributes. Even if the last word is not to be given to CAMA systems the approach provides a means to ensure that the factors used in a follow-on emulator-type step are valid, which the present methodology lacks. The absence of objectively derived parameters in the emulator, 33 coupled with the lack of a

<sup>&</sup>lt;sup>33</sup> Appraisal judgment is the universally cited source for such factors, but the adjustment factors actually used in the emulator for differences in such characteristics as bedroom counts are reportedly rarely changed by appraisers, despite diverse circumstances, and in any event the emulator per se offers no means by which the most appropriate adjustment factors may be objectively developed.



<sup>&</sup>lt;sup>32</sup> Current County practice is to use a very short period of time, as little as six months, from which to draw sales for analysis using MRA and for selection and adjustment in the emulator. This obviates the need to develop time adjustments (which are much more feasibly done in modern CAMA systems than in the past) but exacerbates the variability problems inherent in small sample sizes. See *Mass Appraisal of Real Property*, IAAO, 1999, pp. 263-270 and *Fundamentals of Mass Appraisal*, IAAO, 2011, pp. 147-166. To some extent the County is constrained by R&T Code section 402.5, which reasonably requires comparables to be "sufficiently" near in time, location, and other characteristics to the subject, but concludes by barring any sale more than 90 days after the lien date. This curious provision is not a major impediment to CAMA, however, inasmuch as such systems typically go back, not forward, in time to increase sample sizes, and hence appraisal reliability, as necessary.

QA/QC infrastructure (see below), increases the likelihood that appraisals are less accurate than national norms.

The data elements capturing location are "ADS districts," of which there are about 150 for the county, and "clusters," which are proper subsets of ADS districts. There are about 418 clusters for single-family residences in the county, about 100 for condominiums and about 275 for income-producing residential properties.

Clusters are the approximate equivalent of economic areas in modern CAMA terminology and currently the primary means of incorporating location in valuations. Clusters are named groups of map books defined about 40 years ago by personal-property canvassers who attempted to reflect areas of relative economic homogeneity at the time. They have been largely unchanged since then despite subsequent economic developments. A current attempt to address this problem in the south administrative district has improved the situation, for example by splitting one map book that encompassed two school districts of different quality between two different clusters.

# Cost Method

The Assessor's cost approach is acceptable although very poorly supported from an IT perspective. The County commendably researches costs from construction contractors to develop revised schedules where published sources have not reflected innovative cost reductions, such as with concrete tilt-up warehouses. Areas for potential weakness remain, however, including a lack of attention to calibrating depreciation curves (reportedly due to the fragility of the computer system).

Our primary concern in the cost area is that there is inadequate support for automating and documenting the multiple table-rate lookups and extensions that are potentially required for such appraisals. The current system relies excessively

on paper records although an Excel worksheet may be used to facilitate some of the multiplications and additions.

Modern CAMA systems, in contrast, provide error checking in code selection, automatic table lookups, and preservation of the detailed data entered. They thereby minimize the scope for arithmetic and lookup errors and maximize the ability to perform subsequent re-estimation of cost-approach values based on factor prices. Such systems are also, of course, far less vulnerable to catastrophic loss than those that rely, as here, on paper based records.

# Income Method

The Assessor's income approach to the valuation of income producing properties, such as apartments, office buildings, and the like is hobbled by its reliance on data obtained either from appealed assessments or from published sources, such as CoStar,<sup>34</sup> trade publications, MLS, and similar sources for specialized properties, such as shopping centers and hotels. Best practices in assessment presume that requests for schedules of income and expense (I&E) data are sent out annually to owners/managers so that income, expenses, and capitalization rates can be derived from the broadest possible sample. This allows for data to be normalized so that both superb and poor management practices can be abstracted away. This enables appraisers to work with typical (or "economic" or "market") data for properties instead of having to rely on smaller, more easily biased samples where property management may be inferior or where below market rents can bias estimated market values.<sup>35</sup>

<sup>&</sup>lt;sup>35</sup> The text *Fundamentals of Mass Appraisal*, IAAO, 2011, p.87, for example, notes that I&E data requests principally addressed to appellants, as the County's are, will likely generate data that may not be representative of the overall market. Recall that the objective is to estimate market value, not the values as affected by superior or inferior management practices.



<sup>&</sup>lt;sup>34</sup> CoStar, although arguably the pre-eminent national source for this kind of data on commercial property cannot possibly compare to the wealth of data potentially available by right to the assessor. CoStar boasts 1.8 million property reports, but these are spread across about 200 markets nationwide. By comparison, the county has about 200,000 commercial parcels in its secured database. A proposal to increase the county's capabilities and thereby decrease its reliance on CoStar in this regard was recently considered but abandoned by the assessor's office upon the resignation of its champion for other reasons.

The Assessor's data sets are sub-optimally small and potentially biased due to the absence of actual income and expense data. Also, the available data are not being shared optimally among appraisers. Small user-generated applications to facilitate the sharing of such information have been developed both in the Districts and downtown, only to fall into disuse as personnel are rotated to other positions and can no longer support them.<sup>36</sup> A further discussion of these handy little databases is found in Section D.

The Assessor currently has authority to "compel" the disclosure of such information from property owners, but has failed to do so because of poor response rates in the past and the lack of any consequences for property owners who fail to comply. Two potential ways to address such noncompliance can be tested. First, inasmuch as the County has adopted the labor-intensive practice of canvassing personal property owners, the canvassers can encourage the completion and submission of forms requesting I&E data.<sup>37</sup> Second, AAB rules can be changed to prohibit the appellant's introduction of income, expense, or capitalization rate evidence unless the property owner's returns were timely filed with the assessor.

# Quality Assurance & Control

Quality assurance and related testing is not a major emphasis in the assessor's office despite being one of the hallmarks of mass appraisal. The pre-eminent tool for measuring assessment accuracy is an assessment-to-sale-price ratio (ASR) study comparing assessors' estimates of market values to sale prices. Widely accepted standards for ASR have been developed by IAAO<sup>38</sup>.

The Assessor cannot conduct an ASR study because it does not maintain records of its estimates of the market values of assessable properties. Instead it relies

38 Standard on Ratio Studies, IAAO, 2010.



<sup>&</sup>lt;sup>36</sup> An IT project to address this problem by procuring and formally supporting a replacement called Narrative 1 is currently underway, although there is some concern that the project may be disproportionately focused on presenting available information attractively and less on maximizing opportunities to share data among the multiple appraisers who would find it relevant.
<sup>37</sup> This may be difficult in situations where the business owner does not own the property.

only on base-year values and subsequent assessed values, constrained by the various constitutional provisions (i.e., Prop 13) to which those assessments are subject.

The lack of data necessary for ASR-based quality monitoring is not a universal problem among California County Assessors. Santa Clara, among other northern counties, for example, uses CAMA techniques to estimate the market value of 88% of its residential properties each year. It also makes the results available to taxpayers each year on its web site, thereby affording an opportunity for property owners to judge the reasonableness of such estimates without having to go through labor-intensive appeals processes.

The availability of estimates of market value that pre-date sale prices makes it possible to implement quality control programs to judge the accuracy of those estimates and to test for the presence of remediable systematic biases in the valuation processes related to such things as location and depreciation.

There are still other potential QA/QC measures that could be used by the County. A possibility raised by County assessment personnel is the practice of blind appraisals: having personnel appraise properties for which there are known sale prices, but withholding from the appraiser both the actual price and the knowledge that the subject property was recently sold. Given the data sources available, this could only feasibly be done with residential properties, since essentially all the sources used by major property appraisers are published.

Absent the ability to measure the quality of appraisal results, some QC may still be possible with regards to the quality of appraisal inputs. During the South District's re-clustering efforts, for example, it was discovered through GIS plots that improper cluster numbers had been recorded on a significant number of records in the PDB, leading to improper locational attributes being attributed to such records. Similar techniques have been reported in the IAAO literature in which GIS-based

quality-control programs were developed to check the consistency both of objective data, such as building age,<sup>39</sup> and also of subjective judgments such as quality class.<sup>40</sup> The County has done no such work and almost surely needs to do so.

One obvious area in which this technique may profitably be employed is in the rationalization of land values. Although appraisers take some care during their original appraisals in the allocation of value between land and improvements, in the appeals results we observed there was little support for the allocation of reduced assessments as between land and improvements. This will inevitably generate inconsistent land value maps, debasing one of the traditional indicators of assessment legitimacy.

# Compliance

The Assessor passed the most recent quinquennial quality-control test of valuation level, performed as part of the 2008 audit by the BOE. There are no outstanding deficiencies in this regard according to the Board.

#### Recommendations:

**Recommendation H1** – The Assessor should integrate the valuation resources of the county's GIS into the assessor's valuation activities, including the possibility of two-way automated data transfer, with additional consideration being given to developing statistically defensible surfaces to express locational influences systematically.

**Recommendation H2** – The Assessor should use modern CAMA methods to produce and preserve at least first-draft if not final estimates of the market values of essentially all real property parcels each year in the

<sup>&</sup>lt;sup>39</sup> Such data could also be the subject of QC efforts using other resources, including the oblique photography obtained periodically by the County, but not used as intensively by assessment personnel as one might expect.
<sup>40</sup> See Guilford "Improving the Quality of Subjective Valuation Data," IAAO, 2001.



jurisdiction despite the fact that the vast majority of such parcels will be taxed not on their market values but rather on the constrained values required by law. The marginal cost of doing this for all parcels rather than just the ones needing to be reassessed should be trivial and should be outweighed by the benefit of increased opportunities for quality assurance.

**Recommendation H3** – The Assessor should consider using personal property canvassing personnel to encourage taxpayers to submit responses to forms requesting I&E data during their routine canvassing activities in connection with personal property renditions if such canvassing practices are to be continued.

**Recommendation H4** – The AAB should ensure that the evidentiary rules governing appearances before the Board prohibit appellants from introducing evidence on income, expense, or capitalization rates unless the property's own returns were timely filed with the Assessor as a means of encouraging the filing of such "required" returns for which no noncompliance penalty currently exists.

**Recommendation H5** – The Assessor should initiate a program to systematically identify and remedy weaknesses in the appraisal and quality control systems arising from the degradation of mass appraisal practices following the implementation of Proposition 13. This would include an audit of cluster designations, the re-introduction of assessment ratio studies where feasible, (comparing recent sale prices to the office's estimate of the property's market value, not its constrained assessment), and an increased QA / QC role for the assessment standards unit.

**Recommendation H6** – The Assessor should consider integrated CAMA products during its market research into COTS alternatives to its problematic software for the unsecured roll, as noted in recommendation D6.

# **Appendices**

Appendix A – Glossary of acronyms

Appendix B – Recommendation table

Appendix C – Organizational changes during the past five years

Appendix D – Process maps

## Appendix A – Glossary of Acronyms

Acronym	Definition
AAB	Assessment Appeals Board
AP	Appraisal of Promotability
AR	Assessor's Representative
ASR	Assessment to sale price ratio
ATS	Appeals Tracking System
BOE	California Board of Equalization
BOS	County Board of Supervisors
CAMA	Computer Assisted Mass Appraisal
COTS	Commercial off the shelf (system)
CRM	Customer Relationship Manager
DIV	Decline in value
FMV	Fair market value
GIS	Geographic information system
IAAO	International Association of Assessing Officers
I&E	Income and expense
MRA	Multiple regression analysis
MRP	Major Real Properties
PDB	Property Database
PDR	Paper data record
QA/QC	Quality assurance / quality control
R&T	Revenue and Taxation (Code)
T&V	Time & Volume (system)

## Appendix B – Recommendation Table

Number	Recommendation
A1	The Assessor should keep the Chief Deputy Assessor position filled to provide continuity of management. The requirements for that position should clearly state the need for both substantial assessor experience and expertise, and demonstrated managerial competence. Most likely, this person would come from within the organization and have substantial County experience. However, the individual could also come from other Assessor organizations, as desired by the agency and the County. The County Charter should be amended so that should the Chief Deputy Assessor position become vacant within six months before or after a change in the elected Assessor, the BOS would have the prerogative to appoint an acting Chief Deputy Assessor until a permanent replacement is found.
A2	The Assessor should increase the budget, opportunities and expectations for leadership and supervisory/management training for personnel in the agency including external course offerings.

Number	Recommendation
A3	The Assessor should expand the Rotation Process and, on at least an annual basis, conduct a succession planning process that would include:
	<ul> <li>Forecasting managerial departures,</li> <li>Inventorying projected technical and managerial deficiencies due to departures or based on strategic planning,</li> <li>Planning for remedying these deficiencies through hiring or promotions, and</li> <li>Training needs for those that may be promoted.</li> </ul>
A4	The Assessor should evaluate the promotion requirements for all Assessor items to ensure consistent criteria is used for all promotional examinations.
A5	The Assessor should implement a Peer Review of Chiefs prior to promotion to Director. The Assessor and Chief Deputy should formally obtain input from other Chiefs on who they believe would be the best candidate for a Director position. While the decision would still be based on who the Assessor believes is best qualified to manage a large section of the agency, this practice would at least provide input to the Assessor from the other Chiefs on that individual's skills and abilities.

Number	Recommendation
A6	Develop an Assessor's Executive Office under the direction of a Chief of Staff with a focus on public affairs and communications and establishing Assessor initiatives in non-operational areas. A formal strategic plan/focus for the Assessor's Executive Office should be developed as well as job descriptions for the individuals necessary to staff the office. Consideration should be given to reducing the number of Special Assistants in the office and for hiring professional personnel to adequately staff these functions. Special Assistants should be limited in number and only used for specialized needs by future Assessors.
A7	<ul> <li>The Assessor should implement a new Organization Structure similar to Figure A-7. This new structure features:</li> <li>A Chief Deputy overseeing all agency operations and reporting to the elected Assessor. This will ensure continuity of operations given that future Assessors may or may not have extensive knowledge about Assessor operations. The Chief Deputy should have experience in both assessor functional areas and municipal government.</li> <li>A small IT strategy unit that would focus entirely on the future IT needs of the agency reporting directly to the Chief Deputy. Currently the primary focus of IT, as discussed elsewhere in this report, is on maintenance and development of existing systems. However, considering the pressing need for major legacy system replacement, a separate IT section focusing on strategic procurement and implementation of future IT development is needed. The Assessor recently formed an IT project management unit and this unit could form the basis for the IT strategy unit but it needs to report at a higher level to reflect the</li> </ul>

Number	Recommendation
	strategic importance of legacy system replacement.
	<ul> <li>IT should be moved organizationally to report to an Administrative Deputy along with HR, Management Services and Training.</li> <li>Establish a roll reporting and forecasting function reporting to the Chief Deputy to ensure proper strategic focus of reporting and forecasting and accuracy of agency forecasts.</li> <li>The Assessor's Executive Office should be under the direction of a Chief of Staff who would act as gatekeeper for all extraneous communications and requests coming into the office including those from tax agents and campaign donors. See Section B for a further discussion. The Chief should oversee a professional public information and communications office consisting of permanent positions, as discussed earlier.</li> </ul>
A8	Review short span of control situations and, based on the stated criteria discussed in this section, increase spans of control so that managers have the proper leverage and to reduce management layers.
B1	The County should amend the proposed County Code section 2.165 to prohibit contributions from tax agents and their immediate family members (by blood or marriage).
B2	The County should send notices to all agents logged in the AAB's CRM system as taxpayer representatives for the previous twelve months with instructions to register as tax agents under County Code section 2.165 or face enforcement action.

Number	Recommendation
B3	The AAB should amend its Rules to designate certain parties in the CRM system when an appeal is filed (taxpayer and their representative) and within 10 days (assigned appraiser and an AR). Rules should be amended to stipulate that taxpayer representation should be limited to tax agents registered under 2.165. Rules should be amended to prohibit communication with any other parties except those designated until a case is cleared. County Code Chapter 2.165 should be amended to prohibit ex-parte communication during an active appeal by tax agents with any violation resulting in the loss of registration and a fine. AAB Rules should be amended prohibiting ex-parte communication by a taxpayer with an active appeals case with any violation resulting in the invalidation of their application. AAB Rules should be amended to prohibit ex-parte communication on the part of the Assessor or his/her staff with any violation resulting in disciplinary action (up to and including suspension) of the employee.
B4	AAB rules should be amended to require taxpayers/agents (and family members) to disclose gifts, campaign contributions or donations to the Assessor or any AAB member when filing an appeal.
B5	The Assessor Code of Ethics should be amended such that the elected Assessor must recuse himself/herself (e.g., cannot discuss or take part) in any appeal or administrative review if he/she accepted any donations, gifts or campaign contributions from the taxpayer, agent or family members.

Number	Recommendation
B6	The Assessor should appoint a Chief of Staff whose job description should include acting as the point of contact for campaign donors, taxpayers or tax agents. Any contact received by the Chief of Staff should be directed to a staff appraiser or their immediate supervisor if a parcel is the subject of an administrative review or to an AAB-designated party if the parcel is subject to an appeal.
C1	The Assessor's Office should deploy its appraisal resources more cost-effectively. Initially, it should shift resources from the canvass to processing business property statements timely. <sup>41</sup> It should develop a plan for canvassing businesses on a cyclical basis, so that all are visited once every four years. In time, the Office should seek additional ways to coordinate and share real property and personal property duties.
C2	The County should make the acquisition of a more effective personal property system to replace the AS/400 a priority.
C3	The Assessor's Office should initiate research on typical personal property holdings of common businesses as a means of validating appraiser judgment. The information gathered during audits could be compiled in square foot guides that consider the type of business, the size of the premises, and qualitative differences.
C4	The Assessor in concert with other assessors, the BOE, and other stakeholders, should explore a legislative solution to the lack of cost-effectiveness in assessing low-value properties. Holdings of, say, less than \$10,000 could be assessed on the basis of a presumptive value (which owners could challenge) or be exempted outright.

<sup>&</sup>lt;sup>41</sup> New businesses and similar developments should continue to be visited in the year in which the event occurs.



Number	Recommendation
D1	The Assessor should expedite filling the position of enterprise architect as presently envisioned.
D2	The Assessor's office should continue to research IT and appraisal developments in other parts of the state for their potential application as legacy-system replacements in the county, irrespective of supposed constraints imposed by technology or regulation and should consider COTS alternatives to in-house development.
D3	The Assessor's office should engage routinely in cost benefit analyses, even for smaller projects, in order to develop proficiency that will be crucial in connection with future larger scale undertakings.
D4	The Assessor's office should provide a supported IT system for collecting, entering, analyzing, and presenting income, expense, and capitalization data in support of the income approach to valuation, and it should ensure that such resources are pooled for access by all the appraisers who have potential need of such information.
D5	The Assessor's office should provide documentation on how users are expected to interact with its IT systems.
D6	The Assessor's office should consider integrated products addressing the secured roll as well as the unsecured roll during its market research on alternatives to its systems that support its unsecured roll.
D7	The Assessor's office should amend its contracts with vendors to incorporate service level agreements.

Number	Recommendation
E1	The Assessor should form a small forecasting unit (reporting to the Chief Deputy Assessor) to develop protocols, definitions and data sources for statistical reporting and workload management purposes. This unit should be comprised of the current staff that perform forecasting and statistical reporting functions.
E2	The County CEO should retain a real property value forecast consulting firm to perform periodic reviews and attestations of tax roll forecasts prepared by the Assessor. The consulting firm would report to the CEO but work with the Assessor's forecasting unit.
E3	The Assessor's Office should explore ways to refine its production reporting system to incorporate returns on its investments and its resource allocations. It may be desirable to simplify the system so that it focuses less on the variety of work activities and more on work outcomes generally.
F1	The County should amend Chapter 2.44 of the County Code to charge a \$35 fee for filing an assessment appeal. This filing fee will help to defray the cost of the program and will help to discourage frivolous filings.

Number	Recommendation
F2	The AAB should amend Board rules to appoint a hearing officer to handle only continuances, withdrawals, and accepted recommendations rather than have these items presented to a board. Rules should waive appearance of parties once a hearing officer has approved the withdrawal, continuance or accepted recommendation. Withdrawals, continuances, and accepted recommendations should then be subject to Board review in the same fashion as other hearing officer decisions. The new AAB Case Activity Report can be used by the parties as a tool to document withdrawals, continuances and accepted recommendations for review and approval by the hearing officer. Appendix D shows the proposed appeals process.
F3	The AAB should amend rules such that parties to an appeal must show true hardship for second (or subsequent) continuance requests. Hearing officers presented with continuance requests should deny requests except for hardship. Owner-occupied SFR cases (without tax agent representation) should be exempt from this rule. Appendix D shows the proposed appeals process.
F4	The Assessor should refrain from sharing case data with applicants before hearings except for formal exchange requests.
F5	The Assessor should continue the practice of rotating ARs every three years.

Number	Recommendation
F6	The Assessor should streamline value reduction reporting and approval authority. Policy 1502-1 should be limited to approvals and reporting on administrative reviews. Policy 4080-1 should solely govern determination of recommended values, AR responsibilities, approval thresholds, authority, and reporting requirements. References in Policy 4080-1 to approval authority levels in Policy 1502-1 should be omitted. Approval thresholds in Policy 4080-1 for determining recommended values should be based on percentage-based according to a revised Policy 1502-1 (See Section G). Approval thresholds for subsequent adjustments to those values should be percentage-based similar to the thresholds presented in the August 2 Guidelines for Assessment Appeals. Policy 4080-1 should then replace and supersede the August 2 Guidelines.
F7	The County should reengineer the AAB's CRM system to incorporate Assessor's scheduling and data requirements and repair data conversion issues.
F8	Recommendation – The Assessor's ATS system should be modified so that the assessor's original and adjusted recommended value is recorded for appeals cases.
G1	The Assessor should amend Policy 1502-1 so that, In addition to dollar-based thresholds, percentages should be used based on the degree that a value reduction exceeds the general market direction. Percentage-based thresholds should take precedence over dollar-based thresholds.

Number	Recommendation
G2	The Assessor should program the DIV system so that the approval thresholds found in Policy 1502-1 are programmed into the system with pass-word based approvals replacing the use of Form RP-335. Value reductions exceeding 1502-1 thresholds should be to the Chief, Director or Assistant Assessor designated in the policy.
G3	The Assessor should modify the DIV system so that approval authority delegation for appraisals not selected for enhanced review under Policy 1502-1 is limited to a Supervising Appraiser or a Principal Appraiser.
H1	The Assessor should integrate the valuation resources of the county's GIS into the Assessor's valuation activities, including the possibility of two-way automated data transfer, with additional consideration being given to developing statistically defensible surfaces to express locational influences systematically.
H2	The Assessor should use modern CAMA methods to produce and preserve at least first-draft if not final estimates of the market values of essentially all real property parcels each year in the jurisdiction despite the fact that the vast majority of such parcels will be taxed not on their market values but rather on the constrained values required by law. The marginal cost of doing this for all parcels rather than just the ones needing to be reassessed should be trivial and should be outweighed by the benefit of increased opportunities for quality assurance.

Number	Recommendation
НЗ	The Assessor should consider using personal property canvassing personnel to encourage taxpayers to submit responses to forms requesting I&E data during their routine canvassing activities in connection with personal property renditions if such canvassing practices are to be continued.
H4	The AAB should ensure that the evidentiary rules governing appearances before the Board prohibit appellants from introducing evidence on income, expense, or capitalization rates unless the property's own returns were timely filed with the Assessor as a means of encouraging the filing of such "required" returns for which no noncompliance penalty currently exists.
H5	The Assessor should initiate a program to systematically identify and remedy weaknesses in the appraisal and quality control systems arising from the degradation of mass appraisal practices following the implementation of Proposition 13. This would include an audit of cluster designations, the re-introduction of assessment ratio studies where feasible, (comparing recent sale prices to the office's estimate of the property's market value, not its constrained assessment), and an increased QA / QC role for the assessment standards unit.
H6	The Assessor should consider integrated CAMA products during its market research into COTS alternatives to its problematic software for the unsecured roll, as noted in recommendation D6.

## Appendix C – Organizational changes during the last five years

Year	Organization Description		
2008-09—Rick Auerbach  Total Budgeted Positions = 1511	<ul> <li>Two Direct Reports to Assessor:         Assistant Assessor and Chief Deputy</li> <li>Reporting to Assistant Assessor were:         Admin/Roll Services (Exemptions,         Management Services, Ownership and         HR), District Appraisals(including 13         retirees comprising Special Projects),         Major Appraisals (Systems Interface,         Major Personal, Major Real, Central         Proc, and Assessment (including         Training, Standards, AABs and         Legislation, and Special Investigations)         and Reengineering and Technology (IT         and Mapping)</li> <li>Reporting to Chief Deputy were five         Special Assistants, two staff assistants         and an Administrative Assistant.</li> </ul>		
2009-10—Rick Auerbach  Total Budgeted Positions = 1489	<ul> <li>Training moved from Assessment Services to HR</li> <li>Special Projects moved to Admin/Roll Services</li> <li>Public Information Assistant no longer a position reporting to Chief Deputy.</li> <li>Central Processing moved from direct report to Major Appraisals to Assessment Services</li> </ul>		
2010-2011—Rick Auerbach  Total Budgeted Positions = 1489	<ul> <li>One fewer Special Assistants reporting to Chief Deputy.</li> <li>Reengineering and Tech Director only had one report—IT. Reengineering was no longer a separate Division.</li> </ul>		
May 2010—Robert Quon	<ul> <li>Mr. Noguez was made a Special Assistant reporting to Chief Deputy.</li> <li>Special Assistant reporting direct to Assistant Assessor</li> </ul>		
2011-2012—John Noguez	<ul><li>Mapping moved to Admin/Roll Services</li><li>Project Management created</li></ul>		



	comprising Statistical Support and			
Total Budgeted Positions = 1467	comprising Statistical Support and Special Projects in IT.  Admin in District Appraisals went from 4 to 13 positions.  Two Additional ordinance positions as Staff Assistants under Chief Deputy.			
John Noguez—January 2012	<ul> <li>Added a Chief of Staff as direct report with all other staff reporting to him (Mr. Carlos)</li> <li>Departure of long term Chief Deputy</li> <li>Two Assistant Assessors.</li> <li>One Assistant Assessor had IT, Roll Services (Ownership, Exemptions and Assessment Services) and Administration (HR, Mgmt. Services, and Training).</li> <li>Mapping moved to Assessment Services.</li> <li>The Second Assistant Assessor had District Appraisals and Major Appraisals (Major Real property and Major Personal Property)</li> <li>Central Processing moved to Major Appraisals.</li> <li>Executive Office had a Supervising Special Assistant (with Property Owner Advocate Special Assistant, Community Outreach Special and three Staff Assistants) and a Communications Director Special Assistant, a Valuations Special Assistant, and a Legislation Special Assistant.</li> </ul>			
John Noguez—February 2012	Departure of Chief of Staff Mr. Carlos replaced by Mr. Renkei, who had one Assistant Assessor (District Appraisals and Major Appraisals), IT, Roll Services, Administration, and Executive Office reporting to him.			
John Noguez—March 2012	<ul> <li>One Chief of Staff with Roll Services, Administration, District Appraisals, Major Appraisals and Executive Office reporting to him.</li> <li>IT reported to Administration.</li> <li>No Assistant Assessor; District Appraisals and Major Appraisals now reported direct to Chief of Staff.</li> <li>Personnel changes at Director level due</li> </ul>			

	to retirement.
John Noguez—April 2012	IT moved to Administrative Services.     No other organization changes—only personnel changes.
John Noguez Assessor, On Leave Santos Kreimann, Chief Deputy Assessor- June 2012	<ul> <li>Mr. Noguez takes leave of absence</li> <li>Mr. Renkei Assistant Assessor with Roll Services, Administration, District Appraisals and Major Appraisals reporting to him.</li> <li>Executive Office reports to Chief Deputy.</li> </ul>
John Noguez, on Leave Santos Kreimann, Chief Deputy Assessor- August 2012	<ul> <li>Admin Deputy on Administrative leave.</li> <li>Functions divided between Chief Deputy (HR, Mgmt Serv. and Training) and Assistant Assessor (IT).</li> <li>Assistant Assessor position is vacant.</li> </ul>
John Noguez –on leave Santos Kreimann, Chief Deputy Assessor— September 1, 2012	<ul> <li>Chief Deputy Assessor head of Department; Assessor still on Administrative Leave</li> <li>Two Assistant Assessors, HR, Management Services, Training and Executive Office reporting to Chief Deputy. One Assistant Assessor position is vacant.</li> <li>The other Assistant Assessor has Roll Services (Ownership, Exemptions, Assessment Services, including Standards, AABs/legislative and Mapping), District Appraisals, Major Appraisals and IT.</li> </ul>

## Appendix D - Process Maps

- AAB Appeals Current Process
   AAB Appeals Proposed Process
   DIV Residential Current Process
   DIV Commercial/Industrial Current Process



## 1. AAB Appeals - Current Process

Title of Process: AAB Appeals – v.1 Created: 8/8/12 Last modified: 8/23/12

Symbol Legend

dentify candidates for technical review/

Task or activity

Acronym Key

AAB = Assessment Appeals Board
AR = Assessor Representative
CMM = Customer Relationship Manager (System)
PDB = Property Data Base
TP = Tax Payer

SOW Ms-word

Digitized document or data (e.g., MS-Word file, pdf)

Start

Start or end of process

Insurance reqts

Paper document

Connects or splits processing flow



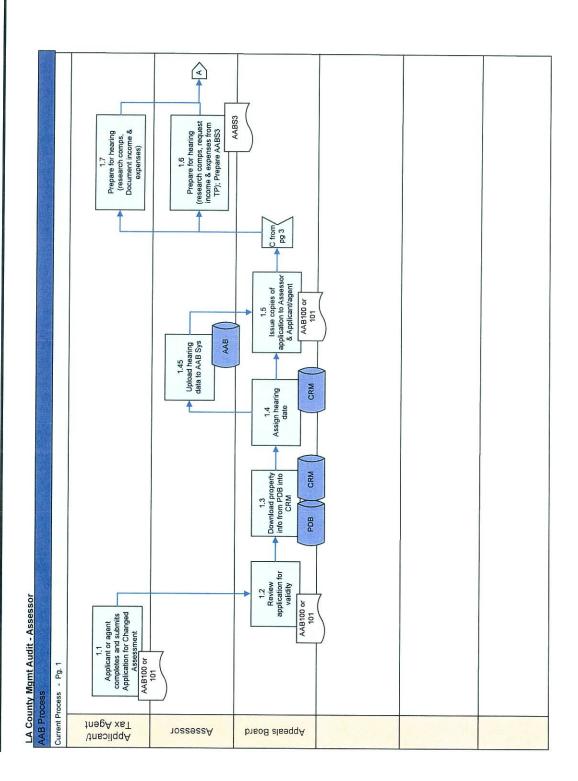
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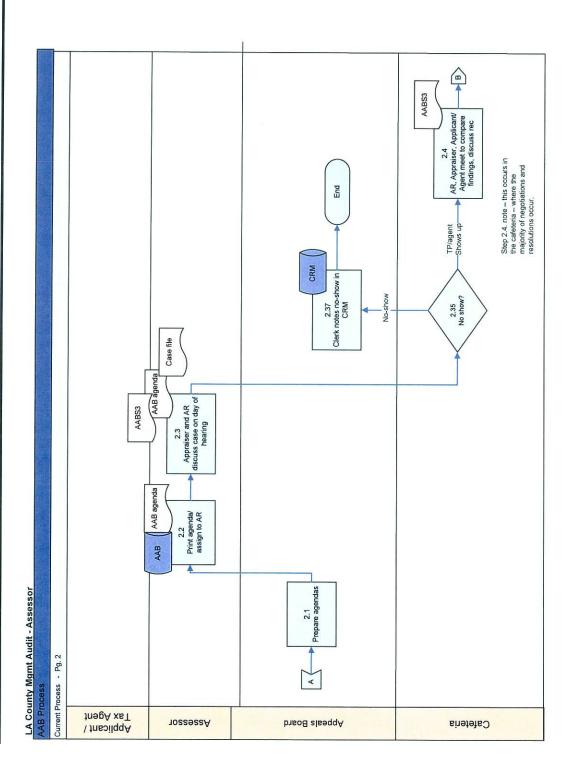
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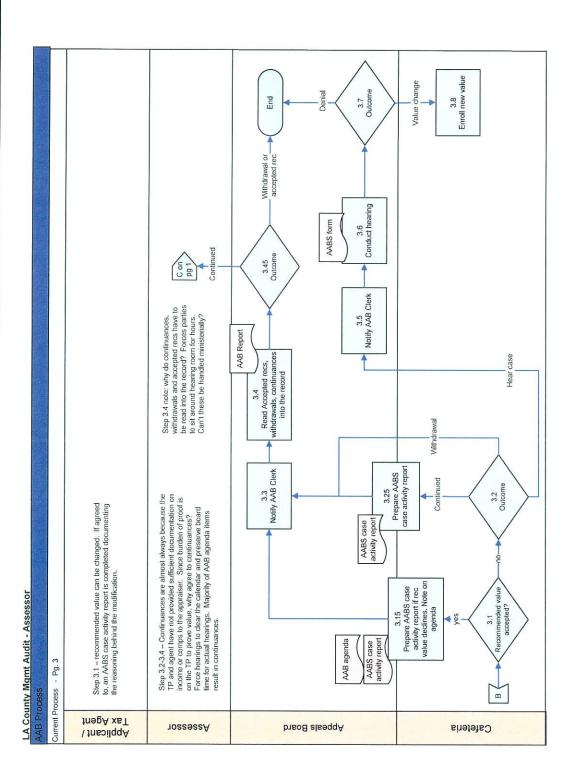


Decision point









## 2. AAB Appeals - Proposed Process

Title of Process: Proposed AAB Appeals – v.1 Created: 8/23/12 Last modified:

Symbol Legend

3 Identify candidates for technical review/ selection panel

Task or activity

Acronym Key

AAB = Assessment Appeals Board
AR = Assessor Representative
CRM = Customer Relationship Manager (System)
PDB = Property Data Base
TP = Tax Payer

Start

Start or end of process

Digitized document or data (e.g., MS-Word file, pdf)

SOW Ms-word

Insurance reqts

Paper document



Connects or splits processing flow



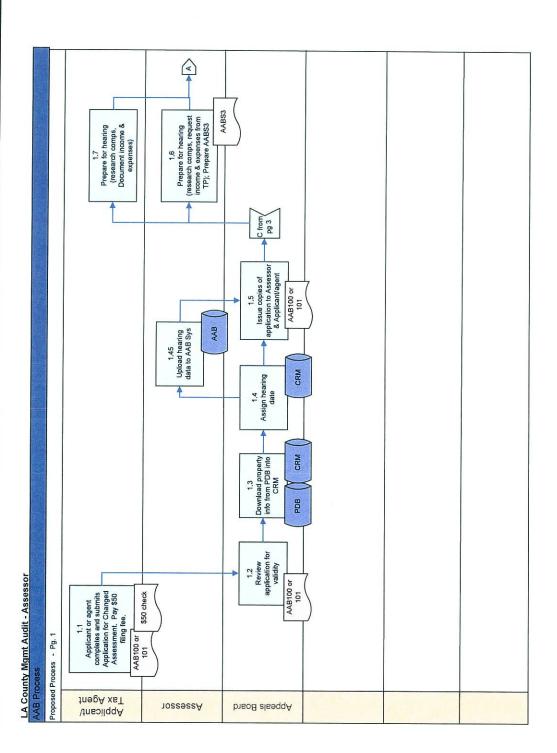
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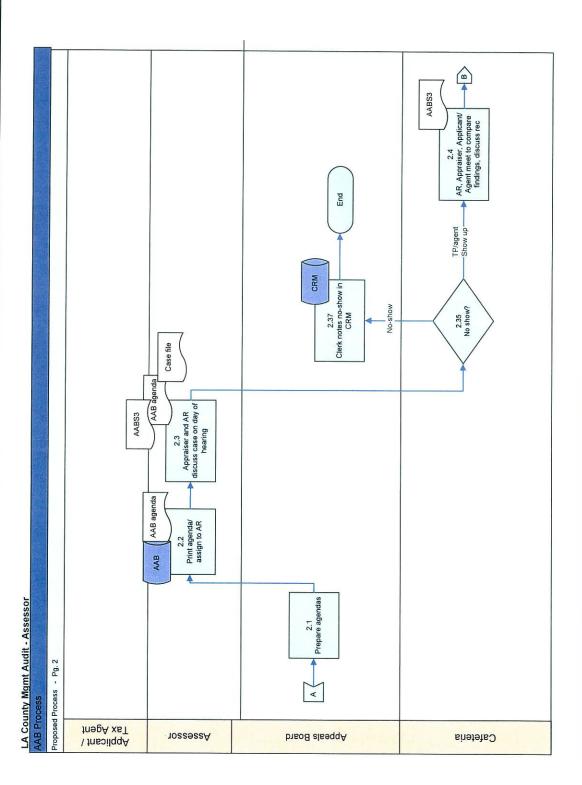
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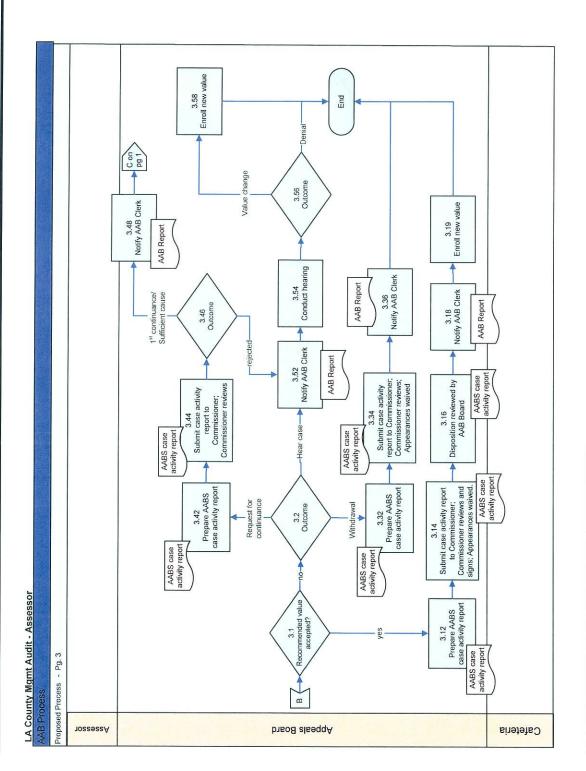
Decision point







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# 3. Residential DIV Process - Current Process

Title of Process: Residential DIV v.1 Created: 8/7/12 Last modified: 9/17/12

Symbol Legend

Acronym Key

DIV = Decline in Value PDB = Property Data Base

> 3 Identify candidates for technical review/ selection panel

Task or activity

Digitized document or data (e.g., MS-Word file, pdf)

SOW Ms-word

Start

Start or end of process

Insurance

Paper document



Connects or splits processing flow



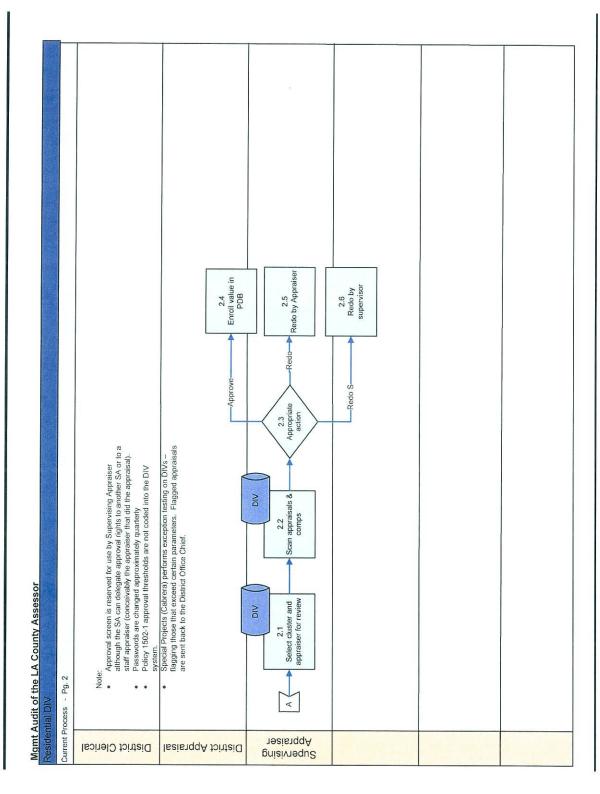
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Decision point



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ounty Assessor						
Mgmt Audit of the LA County Assessor Residential DIV	Current Process - Pg. 1	District Clerical	DIV DOKNOW pushes DIV application to available appraiser	Supervising Appraiser		



# 4. Commercial/Industrial DIV Process - Current Process

Title of Process: Commercial Industrial DIV v.1 Created: 8/9/12 Last modified: 9/17/12

Symbol Legend

Acronym Key

3 Identify candidates for technical review/ selection panel

Task or activity

DIV = Decline in Value PDB = Property Data Base

SOW Ms-word

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Start

Start or end of process

Insurance reqts

Paper document



Connects or splits processing flow

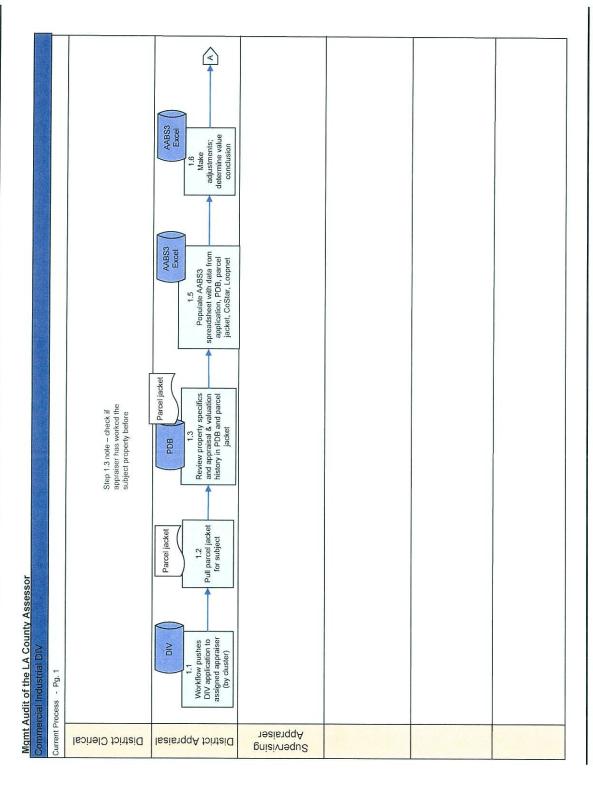


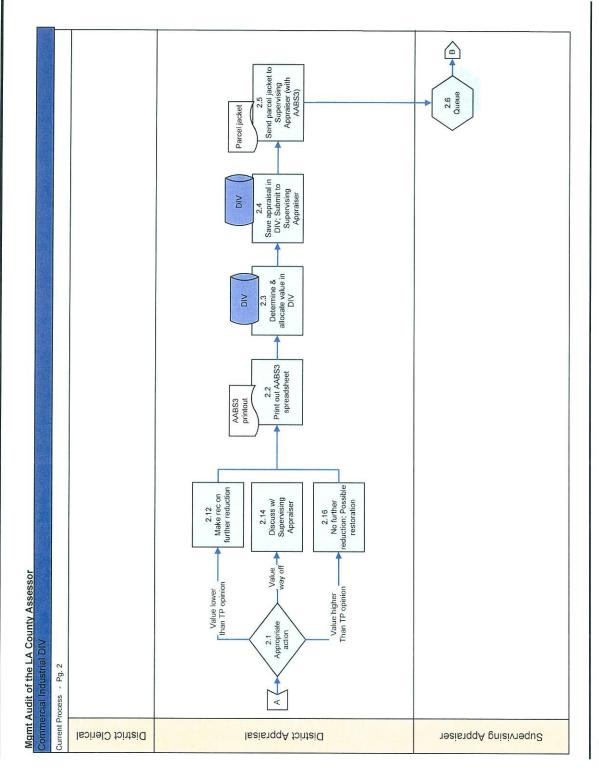
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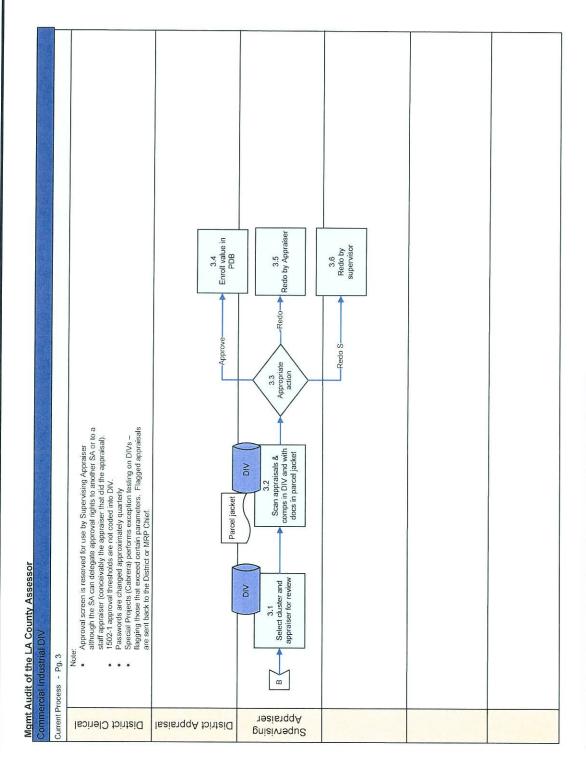


Decision point











## OFFICE OF THE ASSESSOR COUNTY OF LOS ANGELES

500 WEST TEMPLE STREET, ROOM 320 LOS ANGELES, CALIFORNIA 90012-2770 (213) 974-3101 assessor.lacounty.gov

## SANTOS H. KREIMANN

CHIEF DEPUTY ASSESSOR

December 18, 2012

TO: Wendy L. Watanabe

Auditor-Controller

FROM: Santos H. Kreimann

Chief Deputy Assessor

SUBJECT: MANAGEMENT AUDIT OF THE LOS ANGELES ASSESSOR

ASSESSOR RECOMMENDATIONS

Attached is the Assessor's response to the recommendations contained in the Management Audit of the Los Angeles Assessor conducted by Strategica. Please see the attached document which reflects our responses to these recommendations. Also included is the Chief Deputy Assessor's 100-Day Report presented to the CEO, William T Fujioka, on October 4, 2012 documenting the accomplishments of the department since my appointment on June 19, 2012.

If you have any questions or need additional information, please contact George Renkei, Assistant Assessor of Administration at (213) 974-3101.

SHK:SM:ac

Attachments

c: George Renkei, Assistant Assessor, Administration Sharon Moller, Assistant Assessor, Operations

## County of Los Angeles Office of the Assessor Response to Recommendations – Management Audit

## ORGANIZATIONAL STRUCTURE/PERSONNEL

## Recommendations:

A1. The Assessor should keep the Chief Deputy Assessor position filled to provide continuity of management. The requirements for that position should clearly state the need for both substantial assessor experience and expertise, and demonstrated managerial competence. Most likely, this person would come from within the organization and have substantial County experience. However, the individual could also come from other Assessor organizations, as desired by the agency and the County. The County Charter should be amended so that should the Chief Deputy Assessor position become vacant within six months before or after a change in the elected Assessor, the BOS would have the prerogative to appoint an acting Chief Deputy Assessor until a permanent replacement is found.

## Department Response: PARTIALLY AGREE

Although we concur with the recommendation to keep the Chief Deputy Assessor position, and agree that the most likely person to fill this position would have demonstrated managerial competence and experience within the department, the appointment of the Chief Deputy Assessor position, regardless of how long it takes to appoint a qualified candidate, should be the sole prerogative of the elected Assessor.

A2. The Assessor should increase the budget, opportunities and expectations for leadership and supervisory/management training for personnel in the agency including external course offerings.

## Department Response: AGREE

The budget has been increased to fund additional internal and external training opportunities, for technical, supervisorial and managerial staff. In addition, a curriculum on leadership training is currently under evaluation.

- A3. The Assessor should expand the Rotation Process and, on at least an annual basis, conduct a succession planning process that would include:
  - ·Forecasting managerial departures,
  - •Inventorying projected technical and managerial deficiencies due to departures or based on strategic planning,
  - •Planning for remedying these deficiencies through hiring or promotions, and
  - •Training needs for those that may be promoted.

## Department Response: AGREE

The department is currently creating a strategic plan that will address existing and prospective organizational needs and objectives. The strategic planning process includes succession planning in order to address the high attrition rate expected over the next two to three years. Training requirements to prepare individuals for more advanced managerial positions will also be evaluated and implemented as needed.

## County of Los Angeles Office of the Assessor Response to Recommendations – Management Audit

A4. The Assessor should evaluate the promotion requirements for all Assessor items to ensure consistent criteria is used for all promotional examinations.

## Department Response: AGREE

We plan to create management teams, including Human Resource specialists and selected staff at varying levels, to evaluate current requirements and criteria to ensure consistency in future promotion decisions.

A5. The Assessor should implement a Peer Review of Chiefs prior to promotion to Director. The Assessor and Chief Deputy should formally obtain input from other Chiefs on who they believe would be the best candidate for a Director position. While the decision would still be based on who the Assessor believes is best qualified to manage a large section of the agency, this practice would at least provide input to the Assessor from the other Chiefs on that individual's skills and abilities.

## Department Response: DISAGREE

While obtaining informal input from other Chiefs could be beneficial in the selection process for lower level positions (i.e. Appraisers, Appraiser Specialists, Supervising Appraisers and Principal Appraisers), formal peer review of the candidates for the higher-level Director position(s) is impractical, as many of the Chiefs would be candidates for the Director position. Input regarding the skills and abilities of the prospective candidates should be thoroughly analyzed and discussed amongst the Assessor, Chief Deputy, Assistant Assessors and Directors of the department to determine and select the best qualified individual.

A6. Develop an Assessor's Executive Office under the direction of a Chief of Staff with a focus on public affairs and communications and establishing Assessor initiatives in non-operational areas. A formal strategic plan/focus for the Assessor's Executive Office should be developed as well as job descriptions for the individuals necessary to staff the office. Consideration should be given to reducing the number of Special Assistants in the office and for hiring professional personnel to adequately staff these functions. Special Assistants should be limited in number and only used for specialized needs by future Assessors.

## Department Response: PARTIALLY AGREE

The department has implemented an organizational structure intended to ensure a separation between the political and administrative/operational functions of the office, with non-operational areas reporting to the Assistant Assessor of Administration and operational areas reporting to the Assistant Assessor of Operations, with both Assistant Assessors reporting to the Chief Deputy. Since the current structure does not include a Chief of Staff, the Special Assistants also report to the Chief Deputy. As recommended, the Special Assistant positions within the Executive Office are being better defined by function, professional qualifications, and necessity. The addition of a Chief of Staff at the Chief level position responsible for public outreach, communications, formulating strategic initiatives and managing the political responsibilities of the office is in line with our ongoing efforts to separate the political from the business operations of the Office of the Assessor.

- A7. The Assessor should implement a new Organization Structure similar to Figure A-8. This new structure features:
  - A Chief Deputy overseeing all agency operations and reporting to the elected Assessor. This will ensure continuity of operations given that future Assessors may or may not have extensive knowledge about Assessor operations. The Chief Deputy should have experience in both assessor functional areas and municipal government.
  - A small IT strategy unit that would focus entirely on the future IT needs of the agency reporting directly to the Chief Deputy. Currently the primary focus of IT, as discussed elsewhere in this report, is on maintenance and development of existing systems. However, considering the pressing need for major legacy system replacement, a separate IT section focusing on strategic procurement and implementation of future IT development is needed. The Assessor recently formed and IT project management unit and this unit could form the basis for the IT strategy unit but it needs to report at a higher level to reflect the strategic importance of legacy system replacement.
  - IT should be moved organizationally to report to an Administrative Deputy along with HR, Management Services and Training.
  - Establish a roll reporting and forecasting function reporting to the Chief Deputy to ensure proper strategic focus of reporting and forecasting and accuracy of agency forecasts.
  - The Assessor's Executive Office should be under the direction of a Chief of Staff who would act as a gatekeeper for all extraneous communications and requests coming into the office including those from tax agents and campaign donors. See Section B for a further discussion. The Chief should oversee a professional public information and communications office consisting of permanent positions, as discussed earlier.

#### Department Response: PARTIALLY AGREE

An organizational structure with the Chief Deputy overseeing all operations has already been implemented.

The IT division reporting directly to the Assistant Assessor of Administration is considered more appropriate given the importance of future and current IT initiatives to the department's success. A project management section is currently established within the IT division and we plan to re-position that unit to report directly to the Assistant Assessor, thus providing the opportunity for increased strategic focus and direction.

The department has already implemented improved budget and roll forecasting tools and resources, with dedicated staff that reports directly to the Assistant Assessor. The department has already implemented an organizational plan intended to ensure a distinction between the administrative and operational duties and responsibilities of the

office under the management of an Assistant Assessor of Administration and an Assistant Assessor of Operations.

A8. Review short span of control situations and, based on the stated criteria discussed in this section, increase spans of control so that managers have the proper leverage and to reduce management layers.

#### Department Response: AGREE

Redistribution and rebalancing of responsibilities is under review and will be implemented in areas where it will contribute to more effective and efficient operations.

#### INTEGRITY

#### Recommendations:

B1. The County should amend the proposed County Code section 2.165 to prohibit contributions from tax agents and their immediate family members (by blood or marriage).

### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

B2. The County should send notices to all agents logged in the AAB's CRM system as taxpayer representatives for the previous twelve months with instructions to register as tax agents under County Code section 2.165 or face enforcement action.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

B3. The AAB should amend its Rules to designate certain parties in the CRM system when an appeal is filed (taxpayer and their representative) and within 10 days (assigned appraiser and an AR). Rules should be amended to stipulate that taxpayer representation should be limited to tax agents registered as lobbyists under 2.165. Rules should be amended to prohibit communication with any other parties except those designated until a case is cleared. County Code Chapter 2.165 should be amended to prohibit ex-parte communication during an active appeal by tax agents with any violation resulting in the loss of registration and a fine. AAB Rules should be amended prohibiting ex-parte communication by a taxpayer with an active appeals case with any violation resulting in the invalidation of their application. AAB Rules should be amended to prohibit exparte communication on the part of the Assessor or his/her staff with any violation resulting in disciplinary action (up to and including suspension) of the employee.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

B4. AAB rules should be amended to require taxpayers/agents (and family members) to disclose gifts, campaign contributions or donations to the Assessor or any AAB member when filing an appeal.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

B5. The Assessor Code of Ethics should be amended such that the elected Assessor must recuse himself/herself (e.g., cannot discuss or take part) in any appeal or administrative review if he/she accepted any donations, gifts or campaign contributions from the taxpayer, agent or family members.

## **Department Response:** PARTIALLY AGREE

The Assessor Code of Ethics currently includes the Government Code and Revenue and Taxation Code provisions that govern conflict of interest and improper use of one's official position to influence a governmental decision in which he/she has a financial interest. The Assessor is required to complete the annual Form 700 Statement of Economic Interests which is filed with the Board of Supervisors. In the Form 700, the Assessor is required to disclose specific types of financial interests that might impair his/her objectivity, including gifts and donations. The Assessor Code of Ethics also addresses the circumstances requiring disqualification in actions that could affect his/her outside financial interest.

Further restricting the potential for conflict of interest and undue influence, the department supports the County's adoption of Chapter 2.190 prohibiting contributions from tax agents to the County's Assessor or candidates for Assessor. In addition, the department is currently reviewing its existing gift policy and considering more stringent limitations.

Beyond the currently implemented conflict of interest provisions and reporting requirements, along with the recently enacted contribution restrictions, the stricter recusal recommendation may impair the Assessor's ability to carry out his/her administrative duties and legal obligation to identify and assess all taxable property within the county and apply all legal exemptions.

B6. The Assessor should appoint a Chief of Staff whose job description should include acting as the point of contact for campaign donors, taxpayers or tax agents. Any contact received by the Chief of Staff should be directed to a staff appraiser or their immediate supervisor if a parcel is the subject of an administrative review or to an AAB-designated party if the parcel is subject to an appeal.

# Department Response: PARTIALLY AGREE

Establishing a Chief of Staff as a point of contact for campaign donors, taxpayers, or tax agents has merit. However, any contact or referral from the Executive Office should be directed through the Assistant Assessor of Operations and never sent directly to the staff appraiser.

#### AGENCY SCOPE

#### Recommendations:

C1. The Assessor's Office should deploy its appraisal resources more cost-effectively. Initially, it should shift resources from the canvass to processing business property statements timely. It should develop a plan for canvassing businesses on a cyclical basis, so that all are visited once every four years. In time, the Office should seek additional ways to coordinate and share real property and personal property duties.

#### Department Response: PARTIALLY AGREE

The field canvass (site appraisal) and the processing of business property statements are not simultaneous activities. The field canvass is conducted in the fall and is the basis for discovering business assessees. In addition to confirming correct business addresses and information, site appraisals can be completed for assessments below \$100,000.

Property statements are required to be filed by business owners by May 7 on personal property assessments of \$100,000 or more. Given the time constraints in the peak filing period and roll closure, a significant increase in the number of property statements would be difficult to handle with existing resources and until greater efficiencies are achieved in the automated system developed to assist in statement processing. Currently, all business property statements are processed timely by deploying all resources available.

Implementing a partial canvass is under evaluation. However, there are concerns regarding the impact of inaccuracies on other time-consuming staff functions and public service.

Cross-training of personal property staff has been accomplished in the past and remains a viable option primarily to alleviate real property workload challenges.

C2. The County should make the acquisition of a more effective personal property system to replace the AS/400 a priority.

#### Department Response: AGREE

The Assessor's Office has taken the following steps in the direction of replacing the existing Personal Property system which currently resides on the AS/400:

- A Request for Information (RFI) was issued.
- Responses from five vendors were received and evaluated.
- Deep-dive demonstrations were provided by each of the respondents.
- Other California counties were consulted.
- Analysis and comparison of the five products was completed.

Currently, the Assessor's Office is evaluating various options and will continue to move forward with the acquisition and/or development of a replacement system.

C3. The Assessor's Office should initiate research on typical personal property holdings of common businesses as a means of validating appraiser judgment. The information gathered during audits could be compiled in square foot guides that consider the type of business, the size of the premises, and qualitative differences.

#### Department Response: PARTIALLY AGREE

The Assessor's Office is considering the merits of a pilot project to test the benefits of this recommendation. However, not all businesses are audited, therefore limiting the methodology recommended as a comprehensive source of information. Much of this type of information can be gathered during the field canvass process, but would only be as comprehensive as the canvass itself.

C4. The Assessor in concert with other assessors, the BOE, and other stakeholders, should explore a legislative solution to the lack of cost-effectiveness in assessing low-value properties. Holdings of, say, less than \$10,000 could be assessed on the basis of a presumptive value (which owners could challenge) or be exempted outright.

#### **Department Response:** AGREE

Revenue and Taxation Code Section 155.2 allows the Board of Supervisors to exempt up to \$10,000. The Assessor's Office has evaluated the low value ordinance in the past and plans to update our cost-benefit analysis to determine if an increase to the low-value property exemption would be cost effective.

#### IT MANAGEMENT

#### Recommendations:

D1. The Assessor should expedite filling the position of enterprise architect as presently envisioned.

#### Department Response: AGREE

The hiring of an Enterprise Architect is currently in progress. Interviews are scheduled for December 11 and 13, 2012.

D2. The Assessor's office should continue to research IT and appraisal developments in other parts of the state for their potential application as legacy-system replacements in the county, irrespective of supposed constraints imposed by technology or regulation and should consider COTS alternatives to in-house development.

#### Department Response: AGREE

The continued research of IT and appraisal developments is in progress. The Assessor's Office is currently monitoring modernization projects in several counties throughout the State, through both the California Assessor's Association and independent contact. This includes neighboring Riverside and Orange Counties. Orange, in particular, is the first such county, to have implemented a new system and produce a roll. Out-of-state assessment jurisdictions are also being closely watched, such as Kings County, Washington.

A mobile device pilot project has been initiated in our department to explore the use of mobile technology. The five largest COTS vendors (three of which have projects in CA) have given deep-dive demos of their products over the past year.

D3. The Assessor's office should engage routinely in cost benefit analyses, even for smaller projects, in order to develop proficiency that will be crucial in connection with future larger scale undertakings.

#### Department Response: AGREE

A project portfolio management prioritization process has been developed and currently being implemented. This process includes business case and return on investment (ROI) analysis for all project request types (small, medium and large).

D4. The Assessor's office should provide a supported IT system for collecting, entering, analyzing, and presenting income, expense, and capitalization data in support of the income approach to valuation, and it should ensure that such resources are pooled for access by all the appraisers who have potential need of such information.

#### Department Response: AGREE

The department has procured Narrative1, a COTS product that is designed to centralize the collection of comparable sales, income and expense, and other relevant data used for the valuation of income properties. The software is in the customization process to tailor the interface and database to the department's needs. The information will be located centrally with access from any location within the county.

D5. The Assessor's office should provide documentation on how users are expected to interact with its IT systems.

#### Department Response: AGREE

The Assessor has existing comprehensive manuals that are managed by the System Interface Unit to provide instructions for users to interact with IT systems including PDB and AS/400. In addition, there is a training manual that is used to train users on how to interact with IT systems.

The department currently has plans to update existing manuals so they are more user-friendly and centralized for more visible access.

D6. The Assessor's office should consider integrated products addressing the secured roll as well as the unsecured roll during its market research on alternatives to its systems that support its unsecured roll.

#### Department Response: AGREE

As part of the initial Request for Information (RFI) published for the Unsecured System Replacement Project, the Assessor's Office asked that potential vendors indicate how their product integrates unsecured with secured property assessments. This was done in order to gage the degree to which COTS products were scalable from unsecured to secured property assessment, and the integration points between them.

As part of the discovery process, the Assessor's Office asked responding vendors to also demo their secured property systems (see item C2).

D7. The Assessor's office should amend its contracts with vendors to incorporate service level agreements.

#### Department Response: AGREE

Management Services will work with ITD to ensure that all future contracts include a Service Level Agreement.

#### WORKLOAD MEASUREMENT/STATISTICAL REPORTING

#### Recommendations:

E1. The Assessor should form a small forecasting unit (reporting to the Chief Deputy Assessor) to develop protocols, definitions and data sources for statistical reporting and workload management purposes. This unit should be comprised of the current staff that perform forecasting and statistical reporting functions.

#### Department Response: AGREE

The forecast unit has been repositioned and now works closely with the Assessor's executive managers and the County's Chief Executive Office. In addition, an internal forecast committee has been formed that includes the existing forecast team as well as supervisors, managers and subject matter experts that work throughout the department. The committee has been reviewing, revising and refining existing forecast processes and methodologies.

E2. The County CEO should retain a real property value forecast consulting firm to perform periodic reviews and attestations of tax roll forecasts prepared by the Assessor. The consulting firm would report to the CEO but work with the Assessor's forecasting unit.

#### **Department Response:** AGREE

We have been working closely with the CEO to prepare a scope of work to obtain the services of an outside economist and procure secondary economic data resources to assist in the development of sound forecasting assumptions.

E3. The Assessor's Office should explore ways to refine its production reporting system to incorporate returns on its investments and its resource allocations. It may be desirable to simplify the system so that it focuses less on the variety of work activities and more on work outcomes generally.

#### Department Response: AGREE

An Accountability/Performance Metrics action plan team, composed of varying levels of management (first-line to upper level) and facilitated by a consultant from KH Consulting Group, has been assembled with the purpose of designing and implementing "meaningful measures for monitoring operations and measuring success, including exception reporting." See also response from D3.

#### **APPEALS**

#### Recommendations:

F1. The County should amend Chapter 2.44 of the County Code to charge a \$35 fee for filing an assessment appeal. This filing fee will help to defray the cost of the program and will help to discourage frivolous filings.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

F2. The AAB should amend Board rules to appoint a hearing officer to handle only continuances, withdrawals, and accepted recommendations rather than have these items presented to a board. Rules should waive appearance of parties once a hearing officer has approved the withdrawal, continuance or accepted recommendation. Withdrawals, continuances, and accepted recommendations should then be subject to Board review in the same fashion as other hearing officer decisions. The new AAB Case Activity Report can be used by the parties as a tool to document withdrawals, continuances and accepted recommendations for review and approval by the hearing officer. Appendix D shows the proposed appeals process.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

F3. The AAB should amend rules such that parties to an appeal must show true hardship for second (or subsequent) continuance requests. Hearing officers presented with continuance requests should deny requests except for hardship. Owner-occupied SFR cases (without tax agent representation) should be exempt from this rule. Appendix D shows the proposed appeals process.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

F4. The Assessor should refrain from sharing case data with applicants before hearings except for formal exchange requests.

#### Department Response: AGREE

According to BOE Rule 321, which sets forth guidelines for appeals boards, the burden of proof is on the taxpayer to show that the Assessor erred in his/her assessment duties for all cases except administrative hearings that involve owner-occupied, single-family dwellings or appeals of escape assessments for which all required documents have been provided. In order to overcome this presumption that the Assessor has properly performed his or her duties, the law requires that the applicant present independent evidence relevant to the full value of the property or other issue presented by the application.

Although the Assessor's Office encourages contact between the applicant and the appraiser prior to the hearing in order to better determine the issues of the case, we agree that sharing the Assessor's case data with the applicant provides a level of due process in excess of what is afforded by law and should be discouraged.

F5. The Assessor should continue the practice of rotating ARs every three years.

#### Department Response: AGREE

The department plans on continuing the practice of rotating ARs.

F6. The Assessor should streamline value reduction reporting and approval authority. Policy 1502-1 should be limited to approvals and reporting on administrative reviews. Policy 4080-1 should solely govern determination of recommended values, AR responsibilities, approval thresholds, authority, and reporting requirements. References in Policy 4080-1 to approval authority levels in Policy 1502-1 should be omitted. Approval thresholds in Policy 4080-1 for determining recommended values should be based on percentage-based according to a revised Policy 1502-1 (See Section G). Approval thresholds for subsequent adjustments to those values should be percentage-based similar to the thresholds presented in the August 2 Guidelines for Assessment Appeals. Policy 4080-1 should then replace and supersede the August 2 Guidelines.

### **Department Response:** PARTIALLY AGREE

The Assessor's Office is currently in the process of reviewing Policy 1502-1 and Policy 4080-1 to improve clarity and coordination.

Policy 1502-1, Special Value Change Approval, governs large assessment roll changes originating from exemptions, AABs proceedings, and other assessment changes. It is used for administrative changes and in AAB case preparation in order to ensure appropriate management oversight and approval on large value reduction

recommendations. Our preference is to maintain the dollar-based thresholds for administrative changes in order to ensure that the additional approval requirement is appropriately directed to large value assessment changes rather than potentially lower dollar amounts that may be applicable if a strict percentage threshold is implemented. It is our opinion that this increases the efficiency and maintains the accountability of the process.

In response to the percentage-based versus dollar-based thresholds, please see G1 below.

Policy 4080-1, Assessor's Representatives at Assessment Appeals Board Proceedings, addresses the Assessor's Representatives (ARs) authority and responsibilities at the Board. This policy defines the authority given to the ARs to initiate value reduction recommendations at the Board. This authority is limited to a defined percentage, not to exceed the dollar amounts specified in the 1502-1 policy memo. The dollar-based threshold was intended to provide an upper limit to the authority provided to the ARs during case presentation. We agree that additional clarification may be needed to ensure proper implementation and are in the process of updating both policy memos.

Although the Assessor's Office supports effective means to streamline the AAB process, our preference is to maintain the requirements of the administrative approval process during case preparation and better clarify and define the additional approval authority of the ARs during case presentation.

F7. The County should reengineer the AAB's CRM system to incorporate Assessor's scheduling and data requirements and repair data conversion issues.

#### Department Response:

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This recommendation was referred to the Executive Office of the Board of Supervisors.

F8. The Assessor's ATS system should be modified so that the assessor's original and adjusted recommended value is recorded for appeals cases.

#### **Department Response:** PARTIALLY AGREE

Although useful information, this modification requires a major overhaul of the ATS system since its original design did not take into consideration keeping the history for appeals cases. Due to current data conversion issues, further enhancements to ATS are not considered feasible at this time.

#### **DIV PROCESSES**

#### Recommendations:

G1. The Assessor should amend Policy 1502-1 so that, in addition to dollar-based thresholds, percentages should be used based on the degree that a value reduction exceeds the general market direction. Percentage-based thresholds should take precedence over dollar-based thresholds.

#### **Department Response:** PARTIALLY AGREE

Percentage-based thresholds could result in large dollar-based value reductions that exceed current established thresholds (i.e. 20% of 1,000,000 = \$200,000, but 20% of \$100,000,000 = \$20,000,000). The \$200,000 currently requires the approval of a supervisor. However, a \$20,000,000 reduction requires the approval of a Director. The dollar-based thresholds have provided a limit on the percentage-based reductions and increased accountability and approval requirements for the larger property valuations.

G2. The Assessor should program the DIV system so that the approval thresholds found in Policy 1502-1 are programmed into the system with pass-word based approvals replacing the use of Form RP-335. Value reductions exceeding 1502-1 thresholds should be to the Chief, Director or Assistant Assessor designated in the policy.

#### Department Response: AGREE

The Assessor's ITD Application Section Team in collaboration with the Special Projects Team will define and introduce business rules to the current DIV approval process. These new business rules for DIV approval process would involve positional approval based on the property type (District vs. Major) and property value within the prescribed framework of Policy 1502-1.

G3. The Assessor should modify the DIV system so that approval authority delegation for appraisals not selected for enhanced review under Policy 1502-1 is limited to a Supervising Appraiser or a Principal Appraiser.

#### Department Response: AGREE

The Assessor's ITD Application Section will modify the DIV System to limit approval authority delegation.

The Assessor's ITD Application Section and Special Projects team will meet with the management of District and Major Appraisals to get management's input and possible impact once the proposed changes have been implemented. A DIV mechanism will be developed to notify co-Supervisors or Principal Appraisers of impending appraisals once delegation has been executed.

#### **VALUATION METHODS**

#### Recommendations:

H1. The Assessor should integrate the valuation resources of the county's GIS into the Assessor's valuation activities, including the possibility of two-way automated data transfer, with additional consideration being given to developing statistically defensible surfaces to express locational influences systematically.

Department Response: PARTIALLY AGREE

We need clarification on what "statistically defensible surfaces" means. In some applications, the Assessor already allows for the bidirectional selection of comparable sales for SFR/Condo property types. We are unsure of what is meant by "two-way automated data transfer"; currently datasets and GIS layers are consumed as services and are informational in nature. There is not a data exchange per se but a data consumption and display. The department, in ongoing efforts, can incorporate data from GIS resources to augment the available information used by appraisers in making valuation decisions.

The Assessor is currently researching additional valuation and validation tools and resources, including:

- Explore IAAO sales ratio analysis methodologies and the application of these methods to current department systems for validation/Quality Assurance opportunities.
- Explore the technical requirements to perform
  - a) a mass emulation of all SFR/Condo properties and
  - explore the requirements to extend CAMA valuations to commercial/industrial, residential-income, vacant and special use types.
- Enhance existing or procure new regression programs to leverage CAMA technologies and theories.
- H2. The Assessor should use modern CAMA methods to produce and preserve at least first-draft if not final estimates of the market values of essentially all real property parcels each year in the jurisdiction despite the fact that the vast majority of such parcels will be taxed not on their market values but rather on the constrained values required by law. The marginal cost of doing this for all parcels rather than just the ones needing to be reassessed should be trivial and should be outweighed by the benefit of increased opportunities for quality assurance.

#### Department Response: AGREE

The department will continue researching commercially available Computer Assisted Mass Appraisal (CAMA) alternatives to determine the best solution. We will also continue to evaluate the feasibility of expanding our data collection and the pool of properties that are evaluated each year.

H3. The Assessor should consider using personal property canvassing personnel to encourage taxpayers to submit responses to forms requesting I&E data during their routine canvassing activities in connection with personal property renditions if such canvassing practices are to be continued.

#### **Department Response:** PARTIALLY AGREE

Most business owners do not own the real property that they occupy, and most canvassing staff do not interact with either the company owner or manager. However, we will explore the possibility of adding real property data collection to our field canvass.

H4. The AAB should ensure that the evidentiary rules governing appearances before the Board prohibit appellants from introducing evidence on income, expense, or

capitalization rates unless the property's own returns were timely filed with the Assessor as a means of encouraging the filing of such "required" returns for which no noncompliance penalty currently exists.

#### Department Response:

This recommendation was referred to the Executive Office of the Board of Supervisors.

H5. The Assessor should initiate a program to systematically identify and remedy weaknesses in the appraisal and quality control systems arising from the degradation of mass appraisal practices following the implementation of Proposition 13. This would include an audit of cluster designations, the reintroduction of assessment ratio studies where feasible, (comparing recent sale prices to the office's estimate of the property's market value, not its constrained assessment), and an increased QA/QC role for the assessment standards unit.

#### Department Response: AGREE

The department has begun a county-wide project to clean data and realign economic "clusters" into contemporary areas. The South District completed this effort. The North, East, and West districts are in various stages of accomplishing this task.

Assessment Ratio studies may be performed on transfers where appraised values can be compared with indicated sale prices. This will allow the department to perform value benchmarking based on market data.

The department has established a Quality Assurance unit that will have a significant role in QA/QC reviews.

H6. The Assessor should consider integrated CAMA products during its market research into COTS alternatives to its problematic software for the unsecured roll, as noted in recommendation D6.

#### **Department Response:** AGREE

As part of the initial Request for Information (RFI) published for the Unsecured System Replacement Project, the Assessor's Office asked that potential vendors indicate the degree to which their COTS products integrated CAMA, including the methodologies utilized in their Automated Valuation Models (AVM).

As part of the discovery process, the Assessor's Office asked responding vendors to demo their integrated CAMA products.

See also item D6.



### OFFICE OF THE ASSESSOR COUNTY OF LOS ANGELES

500 WEST TEMPLE STREET, ROOM 320 LOS ANGELES, CALIFORNIA 90012-2770 (213) 974-3101 assessor.lacounty.gov

#### SANTOS H. KREIMANN CHIEF DEPUTY ASSESSOR

October 4, 2012

Mr. William T Fujioka
Chief Executive Officer
County of Los Angeles
Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Mr. Fujioka:

#### REPORT ON ASSESSOR OPERATIONS

#### **I INTRODUCTION**

On June 19, 2012, the Board of Supervisors nominated me for appointment as Chief Deputy Assessor. On that same day, Assessor John Noguez accepted the Board's nomination and formally appointed me as Chief Deputy Assessor, to take effect immediately. Under the terms of my appointment by the Assessor, I was given complete autonomy and authority over all aspects of the department, including deciding on all personnel and operational matters. These terms would continue during the course of Assessor Noguez' leave of absence.

Upon assuming management responsibilities, it was clear that the stabilization of the department from both an operational and personnel perspective was the highest priority. Morale was low and employees were uncertain about the health and stability of the department. Given the uncertain nature of the interim management of the department, a number of short-term, high-priority objectives were identified.

The following is a description of the actions taken by the Assessor's Executive Management Team to initially stabilize and provide guidance on the future direction of the Office.

#### II STABILIZATION

In identifying those critical tasks requiring immediate attention, priority was given to those areas that contributed to the recent controversy, including implementing operational safeguards to prevent manipulation of the valuation enrollment system. More specifically, a change in handling public records

act (PRA) requests, reassigning personnel, modifying existing policies and procedures and implementing operational changes aided in refocusing and stabilizing the department. Additional checks and balances were also established including more rigorous reporting and documentation requirements. Higher levels of management review and approvals on valuation adjustments were instituted as well.

More specifically, the following immediate actions were taken in the interest of stabilizing the office:

#### Personnel Changes

- A number of senior managers were placed on administrative leave until a thorough internal investigation is completed.
- New Assessor Representatives (ARs) have been assigned to represent the department before the Assessment Appeals Board to eliminate any public perception of inequitable practices or treatment.
- The authority of the new AR's to make and initiate value recommendations has been more
  closely regulated and subjected to new policy limitations that require graduated management
  approval based on percentage valuation reductions rather than hard dollar thresholds (Exhibit 1
   Guidelines for Assessment Appeals).

#### **Internal Policies**

Three internal policies required immediate attention and various modifications have now been completed:

- Policy & Operating Practice Manual, Policy #4080-01-5: Assessor's Representatives and Testifying Appraisers at Assessment Appeals Board Proceedings (Exhibit 2 4080 Policy).
   The 4080 policy change provides clarification for both ARs and appraisers during interactions at the Assessment Appeals Board. The ARs and appraisal staff are required to have proper management signature authorizations for all value recommendations.
- Policy and Operating Practice Manual #1500-04-01: Change in Ownership Reappraisal District Guidelines (Exhibit 3 – District Guidelines).
   This is a new policy that provides guidelines for managing the Paperless Transfer System
  - workflow in the district offices for unvalued transfers. It establishes procedures to ensure that transfers are assessed in a timely manner and with appropriate oversight and accountability. More specifically, the policy now imposes a 120-day deadline to enroll a property transfer. Any exception will require higher level management approvals to extend the deadline.

> Policy and Operating Practice Manual # 5210-03-2: Accepting Sale Price in Transfer Reappraisal (Exhibit 4 - SBE Rule 2).

This policy has been amended to clarify our process which will now require documentation if there is substantial and convincing evidence that a property's reported sales price is not an indication of market value.

#### **Quality Assurance**

- The revelations of misconduct by former appraiser Scott Schenter compelled the department to focus on internal controls and oversight. The Quality Assurance (QA) Unit was created to review existing policies and identify best practices to prevent future unilateral modification of property values.
- The department is reviewing all past cases managed by Mr. Schenter to identify any problematic values. Any questionable cases are immediately reported to the District Attorney's Office.
- A forensic internal audit of existing internal controls is also being conducted, giving specific attention to those manual processes that Mr. Schenter exploited to improperly adjust property values.
- New internal controls specifically responding to Mr. Schenter's actions have been implemented, including new and improved forms, confirmation by clerical staff that proper signature requirements are satisfied, and the preparation of management and value exception reports that highlight large property valuation changes are to be reviewed by audit staff.
- Compliance audits on new business practices are also being conducted to ensure the updated forms are used, the proper business procedures are followed and appropriate sign-offs for enrolling new values are obtained.
- Supplemental funding for five new positions for the QA Unit has been requested in the supplemental budget. This will ensure sufficient staffing and resources are dedicated to enhance the integrity of the tax system.

#### Public Records Act Requests

A more efficient and appropriate process was established for managing the voluminous Public Records Act (PRA) requests made by the media, District Attorney, and members of the public by routing them to County Counsel. This process change enabled for better tracking, review and responsiveness to PRA requests thus allowing the Office to focus on its core mission of preparing and closing the tax roll.

#### III STRATEGIC PLANNING

The prior department organizational and management structure tended toward a "silo" model, where each core function operated autonomously and with little interdepartmental planning and coordination. Moreover, the department lacked a strategic plan and shared goals.

To assess the immediate and long-term needs of the department, a series of meetings were organized with all department employees, both in the Hall of Administration and in the district offices. Lines of communications were opened and input was solicited from employees, providing them with many avenues to express their concerns and aspirations for the department. Several strategic-planning sessions were held with a cross-section of executives, division managers, and employees beginning in August.

After further consulting with senior staff and many employees, our new motto, vision, mission, and values, outlined next, were established. The role of the Office of the Assessor as a part of the "County family" has also been further emphasized. The following is a further discussion about them.

#### **Our Motto**

Valuing People and Property

#### **Our Vision**

To be the premier property assessment agency in the nation.

#### **Our Mission**

We value people and property by creating an accurate and timely assessment roll while delivering exceptional and professional public service with integrity.

#### **Our Values**

We <u>aspire</u> to be the best - the premier property assessment agency in the nation.

Accountability

Service excellence

Professionalism

Integrity

Respect

Equity

Our Strategic Plan defines what we will do. The successful implementation of our Strategic Plan will require every employee to understand and focus on achieving our organization's motto, vision, mission, and values.

**Our Motto.** To build employee morale and pride in the department, we are developing a "branding" strategy, featuring the new motto of "Valuing People and Property." Among the changes associated with this effort, a department-themed desktop background for all computers will highlight the new motto and logo, as well as departmental or County photos or images.

Our Vision. Our vision states what we aspire to become - the premier assessment agency in the nation. We have achieved that stature in the past and know we can do so again.

*Our Mission.* Our mission builds on our motto to <u>value people and property</u>. The mission statement also defines what we do – *creating an accurate and timely assessment roll* – and reinforces the importance of exceptional and professional public service with the alf-important value of integrity.

Our Values. Our values define how we will act in achieving our vision and mission. We will act consistent with our values and uphold the highest ethical standards. We support all of the County values and emphasize the importance of specific County values: Accountability, Professional, Integrity, and Respect. Given the nature of the Office of the Assessor, we have added Service and Equity. Our A.S.P.I.R.E. values link to our vision to aspire and become the premier property assessment agency in the nation.

The strategic-planning process has also emphasized the demand for the unquestioned integrity of our personnel and the manner in which we do our jobs. Management and staff will recommend and implement strategies that can be taken to avoid the appearance of misconduct, mitigate potential fraudulent acts and behavior in the future, and ingrain our newly adopted values into our work culture.

#### IV INITIAL STRATEGIC PRIORITIES

#### Strategic Priority 1. Building a New Forecasting Model

An improved estimation model and process for the annual assessment roll forecast is being developed in cooperation with your office and technical staff from the Internal Services Department (ISD). The forecast assumptions will now be the primary responsibility of the Assessor's Executive Management Team rather than simply relying on our technical support staff and appraisers.

Each component of the assessment forecast methodology is being broken down into its constituent parts, analyzed for consistency and accuracy, and then reassembled and integrated back into the forecast. Executive summaries of these forecast components and the underlying assumptions will be prepared, allowing the Executive Management Team to reach a consensus in guiding the development of the forecast.

The department is now in the process of procuring additional outside resources to be included in the forecast analysis, including subject matter experts in real estate market and macro-economic analysis.

With the help of your staff, we have secured funding to acquire the necessary Cognos reporting software that will facilitate a detailed sensitivity analysis of the factors contributing to change in the assessment roll.

While we're hopeful that the new model will largely be in place in time to prepare the 2013 roll forecast, we are anticipating at a minimum preparing the roll forecast using a hybrid approach that includes the existing forecast methodology along with components of the newly developed model.

We will present the preliminary forecast no later than early February 2013 and as a range of values, as opposed to a fixed percentage estimate, to allow CEO budget staff to select the most appropriate percentage change for budgetary purposes.

#### Strategic Priority 2. Management Audits

The department has moved expeditiously to address the issues raised in previous audits, including the IT Audit released in April 2012. The recommendations of the April IT Audit have all been implemented. All surplus equipment has been distributed and in the future, the department will only purchase equipment on an as-needed basis.

Department staff has fully cooperated with the Auditor-Controller in the comprehensive management audit. Assessor personnel have participated in extensive interviews and provided necessary briefings and materials to ensure accuracy and completeness of the information being audited.

The findings of the Auditor-Controller's comprehensive management audit are anticipated to be released in November 2012. We welcome the audit and look forward to implementing the proposed recommendations we deem appropriate for the office that will improve and safeguard department operations.

# Strategic Priority 3. Information Technology Initiatives

The department has initiated a three to five year strategic plan for information technology. The IT team is researching software systems and identifying existing issues based on manager and staff feedback that will enhance efficiency, accountability, and greater accessibility.

The following are initiatives which have been determined to be essential toward positioning the department to be able to engage in the establishment of an enterprise solution for the replacement of both Secured and Unsecured Systems. These initiatives will address the replacement of existing systems which no longer provide the required functionality and reliability, while assuring that an integrated solution of critical components are incorporated:

- <u>Replacement of the Unsecured System</u> The Unsecured System has become vulnerable and unreliable. By the end of the current fiscal year a Request for Proposal (RFP) will be prepared to acquire a new product.
- Acquire an Enterprise Architect Sierra Systems recently completed a study recommending that
  the department acquire an Enterprise Architect. Working with ISD, an Enterprise Architect will be
  retained to develop a two to three year "roadmap."
- Enterprise SharePoint Implementation An integrated system with robust functionality is
  required for staff to collaborate efficiently and increase productivity. The Assessor's Office
  intends to develop a modern collaborative system using Microsoft SharePoint Enterprise 2010.
  The initial phase will target the building of this infrastructure and the conversion of all existing
  standalone sites to a single interactive solution. Subsequent phases will continue to expand the
  functionality to become one of the key collaboration tools for the Department.
- Implement Project Portfolio Management (PPM) (DAPTIV software) To implement metrics for the newly established Program Office and to better manage resources, a Project Portfolio Management (PPM) software program has been launched. This project will be focused on establishing basic functionality for managing all ITD projects and resources to support all future strategic-planning efforts.
- Business Intelligence (BI) Cognos (Forecasting) —The department is working with ISD with the
  focus on compiling and analyzing transfer processing data. Subsequent phases over the coming
  years will be developed for the other components that go into forecasting.
- Implement Narrative 1 for Commercial Property Appraisal units have relied on paper-based reports, spreadsheets and shared folders for use in their appraisals. The Department has acquired a product which can serve as an interim technology-based solution until a permanent solution can be established.

- Mobile Device Evaluation IT will evaluate selected devices, software and services, and how new technology devices can improve the mobility of staff as a replacement to laptops.
- Personal Property Imaging System (PPIP) ITD is in the process of correcting problems identified
  with the 571L PPIP. The PPIP's EMC Document Management System Solution has been
  established as the standard for future imaging developments. Meetings with vendor EZ Access
  will be scheduled to address the poor service support they have been providing and to get a
  commitment for the expected support in the future.

#### Other IT Accomplishments

- A rewrite of the Property Activity Information System public website was developed and is currently in final acceptance testing.
- Developed a new web application for Assessor staff to submit employee suggestions.
- ITD has prepared responses to numerous employee suggestions recommended through the Employee Suggestion Box.
- A draft proposal for a new prioritization process for all ITD projects was completed. The Project Portfolio Management software that is being developed will incorporate these procedures.

### Strategic Priority 4. Technical and Professional Development Training

The department has dedicated substantial new resources for supervisory, leadership, professional development, and other types of training. These additional resources were sought and secured through the CEO and SEIU Local 721. Efforts are being implemented to train executives and senior managers for succession planning purposes.

The department historically has not provided adequate management, supervisorial and other personnel training. Additional broad-based training for planning, management and leadership skills, and career development is needed. Department managers have been directed to identify savings that can be shifted to augment the department's training budget. A leadership training session for the department's senior management was conducted by a leadership training expert who has successfully worked with County departments in the past.

#### V OTHER POLICY/ORGANIZATIONAL INITIATIVES

Keeping employees informed and engaged in a dialogue about the department has been a high priority. Employees have been encouraged to contact me directly via email, and I answered all of their messages personally. New communications tools have been implemented, and existing communications vehicles have been greatly enhanced.

### Weekly All-Staff Messages

For the first time in the department's history, a weekly message to all employees is issued from the department head in which I share our progress on important issues, identify key objectives and goals, and attempt to provide a sense of affirmation and pride in the department and to value the public service that Assessor employees provide the County.

### Employee Intranet Suggestion Box

An employee suggestion box was added to the Assessor Intranet site. All suggestions are read and responded to, assigned for analysis, and when meritorious, for implementation. To help restore employee confidence, special emphasis has been placed in implementing their good suggestions in an expeditious manner. Additionally, all suggestions, with their status and disposition, can be viewed on the Intranet by all employees

#### Employee Newsletter

The employee newsletter, the "Valuator," has been expanded from a report on retirements, promotions, and special events to one that includes diverse news about the department and our shared objectives. It also includes County news in an effort to enhance the department's relationship with the County organization as a whole.

#### "Leadership by Walking Around"

Senior managers have been directed to have regular meetings with staff at all works sites, both scheduled and unannounced to enhance morale, accessibility, accountability, and productivity by ensuring regular communications and dialogue with personnel.

#### Organization/Personnel

A number of changes have been made organizationally, including the requirement of Mid-Year Workplans for senior managers to improve budget estimates and the forecast, and to facilitate the development of goals and planning strategies necessary to better enhance efficiencies.

### New organization structure

A new organization structure has been enacted for the leadership of the department. With an emphasis on organizational excellence and efficiency, a second Assistant Assessor was deemed essential to spread the many significant management responsibilities more evenly, with one Assistant Assessor responsible

for administrative matters and the other on operations and valuations (See Exhibit 5 - Organization Chart).

### 4/40 schedule modification

In order to enhance operational efficiency by creating a more consistent work schedule standard, all executive and senior managers have been required to adjust their work schedule to either a 5/40 or 9/80 schedule, with Friday as the only option for their day off. Those employees wishing to advance into supervisorial roles will be required to work the standardized 5/40 or 9/80 schedule in order to enhance public service and ensure proper supervision of staff.

#### **Training**

Appraiser Training Class 71 is scheduled to graduate on October 17, 2012 with 27 new Deputy Assessor appraisers prepared to assume their new assignments. Appraiser Training Class 72 will be hired and will begin their training by the end of October 2012.

### Other Policies/Programs

### **Automated Information Request**

In July, the department unveiled the Automated Information Request (AIR), a new program that notifies taxpayers electronically when their appeal is calendared with the Assessment Appeals Board. This automated system will enable Assessor personnel to request documentation in advance of the hearing, providing adequate time to assess the merits of the appealed valuation and avoiding the need to engage in the "cafeteria" negotiations that were previously common practice.

# **Expanded Multiple Listing Service Access**

Upon hearing from our staff in our West District Office that there was insufficient access to the Multiple Listing Service (MLS), a tool vital to the work of appraisers, purchases of 60 additional access licenses was authorized and are now in place. This greater access to the MLS will increase the accuracy of appraisals, and will also reduce the number of assessment appeals cases in the future. As an added bonus, it has also been a boost to employee morale.

### Annual Assessment Roll Release

The Office of the Assessor successfully completed its primary function: the compilation of the Annual Assessment Roll. We are pleased to report that the 2012 Assessment Roll reflected a 2.24 percent increase in value that represents the second straight year of growth. This year's assessment roll is

\$1,130,560,769,770 gross total, \$24.8 billion greater than last year. The Annual Report that explains the role of the department was made available to the public on the Internet during the first week of September.

#### VI NEXT STEPS

We will now turn our attention to a number of other structural reforms necessary for the long-term organizational health of the department.

# Next Phase of Strategic Planning – Development of Action Plans

The next phase of the strategic-planning effort will build on the work in this 100-Day Report and the new Strategic Plan's vision, mission, and values. We will form Action Planning Teams (APTs), representing a cross-section of the office, to prepare Action Plans for addressing the next series of changes. The Action Plans will involve identification of the action steps needed during the next two years. Different members of the Executive Management Team have championed each of the Action Plans. These series of changes are defined as Strategic Priorities/Goals and entail:

- Action Plan 1 Fiscal: Document the action steps, already identified, to be implemented to enhance our capabilities in forecasting property values for the Board of Supervisors
- Action Plan 2 Policy and Process Improvements: Building on our first 100-day efforts to improve policies and procedures, develop an Action Plan for continuous process improvement while addressing specific policies already identified for change. (Refer to the specific policy and process improvements identified to be addressed next on page 11.)
- Action Plan 3 Technology: Develop an Action Plan that establishes: a) a framework for identifying and setting IT priorities, b) action steps for short-term initiatives ("low-hanging fruit") and c) action steps needed to finalize a three- to five-year Information Technology (IT) Plan.
- Action Plan 4 Accountability/Performance Measurements: Design and implement meaningful
  measures for monitoring operations and measuring success, including exception reporting. The
  Department will place a greater emphasis on linking strategy to a performance monitoring
  system and identifying initial performance measurements to track efforts being made at the
  executive or sub-department levels.
- Action Plan 5 Integrity/Avoidance of Fraud: Identify actions that can be taken to avoid and mitigate potential fraudulent acts and behavior in the future; develop a Code of Conduct.

- Action Plan 6 Succession Planning: Working with the Executive Team, design an ongoing succession-planning process to ensure seamless transition of responsibilities following retirements, promotions, or other staffing changes.
- Action Plan 7 Cultural Change: Develop strategies and tactics for rebuilding the work culture
  to reflect our newly developed values, improve morale, enhance accountability and service
  delivery, and improve communication and collaboration.

The development of the Action Plans will be completed in the next 100 days. In addition to the Action Plans, the following initiatives will also take place.

#### Information Technology

The Department will also embark on some short-term initiatives, including:

- IT will develop a digital "dashboard" for managers that will provide decision-making information to help maintain established performance metrics.
- An "electronic signature" system will be developed to create a paperless system that will enhance operational efficiency. Moreover, the ability to track and verify documentation approval will prevent future unilateral modification of property values.

#### Human Resources (HR)

HR will focus on the appraisals of promotability (APs) process that is employed when evaluating personnel for promotion to ensure greater objectivity, transparency and fairness.

#### **Training**

With the additional resources provided by the CEO to augment the department's training budget, we will coordinate an aggressive program to provide necessary training to Department personnel.

Training will be implemented department-wide, including continuation education for appraisers, supervisorial orientation training for first- and second-line clerical supervisors, and general supervisorial/management training for all classifications.

The department is implementing a new training program for entry-level document examiners (document coding). The one-year program will be modeled on the highly-successful appraiser training program. The Ownership Services Division has not hired new personnel since 2009, which has severely

compromised their ability to manage and process the large number of documents transmitted from the Registrar-Recorder.

#### Process improvements - Internal Controls

Additional internal policies and practices will be reassessed and amended to ensure greater accountability and internal controls to avoid any appearance of, or actual impropriety. This objective will build on the process improvements addressed in the first 100 days and incorporated into the Phase 2 Action Plans:

- New guidelines for Assessment Appeals, articulated in Special Value Change Approval, Policy No. 1502-1-8 (Policy and Operating Practice Manual), have been established for large assessment roll decreases, mandating high level review and approval.
- As previously referenced, the Department's Real Property Handbook, Policy 5209, relative to Assessment Appeals Procedures and Case Preparation is being updated to reflect modifications to Policy 4080.
- The traditional relationships and interaction between tax agents, appraisers and other Department personnel will be assessed to ensure that both in terms of policy and appearance, such interaction is professional, objective, and beyond reproach. We will develop a Code of Conduct for tax agents, as well as other new guidelines and mandates pertaining to tax agents.
- As a result of attrition, new personal property appraisers will need to be hired with an emphasis on those who can specialize in audits.
- A careful review of practices related to promotions and job assignments has been initiated, and the annual personnel rotation, which is necessary to cross train personnel in the various sections of the department, will be implemented.

#### New Gift Policy

A new Administrative Memorandum addressing the Office of the Assessor's gift policy is being drafted prohibiting employees from accepting any gifts, meals, or transportation from taxpayers or their agents. This new department policy will exceed existing FPPC and County restrictions.

#### VI CONCLUSION

Considerable substantive work has been completed over the past 100 days. The department has substantially stabilized itself in the wake of the controversy: a number changes have been implemented to address those issues, and to improve departmental operations.

The men and women of the Office of the Assessor are extremely bright, talented and dedicated public service professionals who never cease to impress me with their knowledge and work ethic. I applaud them for their ability to complete the voluminous and complex work of the Annual Assessment Roll, despite the challenges facing the department.

Sincerely,

SANTOS H. KREIMANN Chief Deputy Assessor

SHK:JP:tt

Attachments (5)

c: Honorable Members of the Board of Supervisors

Wendy L. Watanabe, Auditor-Controller

John F. Krattli, County Counsel

Lisa M. Garrett, Director, Department of Human Resources

Dean C. Logan, Registrar-Recorder/County Clerk

Mark J. Saladino, Treasurer and Tax Collector



# SANTOS H. KREIMANN

### CHIEF DEPUTY ASSESSOR

August 2, 2012

TO:

Assessor Representatives

FROM:

Santos H. Kreimann

SUBJECT:

**GUIDELINES FOR ASSESSMENT APPEALS** 

I would like to welcome our newest Assessor Representatives (ARs) to the Assessment Appeals Section. I appreciate your willingness to accept the responsibility of representing the Department at the Assessment Appeals Board (AAB). As we continue to advance our goals, I would like to establish some guidelines that will support your efforts to promote our motto of "Valuing People and Property" while working collaboratively to establish fair and equitable assessments.

- Any recommendation made at the AAB shall include a written explanation, supporting documentation, and the signatures of both the AR and the Testifying Appraiser.
- Assessor Representatives (ARs), in collaboration with Testifying Appraisers, will have the
  authority to approve recommendations made at the AAB up to 20 percent below the original
  value approved by the regional or area supervisor and/or manager(s) assuming the applicant has
  provided new and compelling evidence not previously considered.
- The Chief of the Assessment Services Division will have the authority to approve recommendations at the AAB up to 30 percent below the original value approved by the regional or area supervisor and/or manager(s) based on new and compelling justification.
- All original AAB appraisals shall have a Supervisor's signature; any reductions over \$500,000, District Real Property, and \$1,000,000, Major Real Property, shall require the signature of a Principal Appraiser.
- AAB appraisals that do not have the appropriate signatures will be returned to their applicable units for proper approval.
- Notwithstanding the above, all recommendations on large assessment roll decreases must conform to the approval requirements set forth in our Special Value Change Approval Policy (See Attached).

These guidelines are effective immediately. I appreciate your assistance as we continue to move forward to ensure that the Los Angeles County Assessor's Office will be the premier assessment agency in the nation.

c: Board of Supervisors
 Executive Office, Board of Supervisors
 Chief Executive Office
 Assessment Appeals Board Members
 Directors of Operations
 District Chiefs
 All Appraisal Staff



# POLICY AND OPERATING PRACTICE MANUAL

NO.		4080	-01-5	
EFFEC	TIVE	10-1-	2012	
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DISTR.	CODE	70		
FILE	4080-	01-50	P.doc	
PUBLIS	SHED	9-27	7-2012	

# ASSESSOR'S REPRESENTATIVES AND TESTIFYING APPRAISERS AT ASSESSMENT APPEALS BOARD PROCEEDINGS

The Revenue and Taxation Code section 1610.2 states: "The assessor in person or through a deputy shall attend all hearings of the county board and may make any statement or produce evidence on matters before the county board." The duty of the Assessor, or designated professional staff, is to establish "fair market value" and make every effort to ensure equalization.

At all hearings conducted before the Assessment Appeals Board (AAB) and before individual Hearing Officers (HO), a member of the Office of the Assessor will attend and act as the Assessor's Representative (AR). However, the testifying appraiser and the AR constitute the team that represents the Assessor. As such, both are valuable members with distinct responsibilities.

#### 1. ORGANIZATION

- 1.1 There are two classifications of Assessor's Representatives:
  - A. Assessor Representatives (AR's) are appointed to the Assessment Appeals Section and assigned those responsi bilities full-time.
  - B. Part time Assessor Representatives are assigned AR responsibilities on an occasional basis and primarily appear before individual Hearing Officers.
- 1.2 The Assessment Appeals Section in the Assessment Services Division functions as the Assessor's liaison with the Assessment Appeals Board.
- 1.3 Real Property appeals:
  - A. Assessment Appeals Board assignments The AR's will be assigned by, and responsible to, the Assessment Appeals Section. Prior to any specific hearing, the Division Chief responsible for the case through the proper chain-of-command may request a designated AR through the Chief of the Assessment Services Division.
  - B. Hearing Officer assignments The part-time AR's will be assigned by the respective District or Division Chief. For ownership issues, a part-time AR will be assigned by the Legal Services Section. The Appraisals sub-departments will assign only Supervising Appraisers and above to part-time AR duties for hearing officer proceedings at the Hall of Administration.
  - C. The District Chiefs may assign appraisers under the supervision of a Supervising or Principal Appraiser to act as part-time AR's at satellite locations in which Hearing Officer cases are being heard.

#### 1.4 Personal Property appeals:

- A. Assessment Appeals Board assignments - The AR's will be assigned by, and responsible to, the Assessment Appeals Section. Prior to any specific hearing, the Division Chief responsible for the case through the proper chain of command may request a designated AR through the Chief of the Assessment Services Division.
- Hearing Officer assignments The part-time AR's for District Office B. appeals will be assigned by the respective District Chief or Area Principal Appraiser. Part-time AR's for Major Personal Property appeals will be assigned by the Chief of Major Personal Property (MPP) or the Area 9 Principal Appraiser.

#### AR RESPONSIBILITES AND DUTIES AT THE APPEALS BOARD 2.

All Assessor personnel who participate in the hearing come under the direction of the assigned AR's, as they are responsible for managing the Assessor's case presentation. The AR's responsibility is to facilitate the presentation of the department's case and to assist the appraiser in interactions with the Board and the applicant or taxpayer. The AR's speak for the department in regard to assessments, legal issues, and policy.

The AR's determine how the presentation will be made. For instance, the AR will decide whether the presentation will be delivered in narrative form by the appraiser or in the form of question and answer. The AR may:

- A. Cross-examine.
- B. Pose formal objections and make formal motions.
- C. Argue the Assessor's case.
- D. Communicate their evaluation and analysis of the Assessor's case to the Board.
- E. Determine the extent of the testimony, and may limit the data presented.

#### 3. TESTIFYING APPRAISERS RESPONSIBILITES AND DUTIES AT THE BOARD

- 3.1 The primary role of the appraiser in assessment appeals cases is to serve as a witness to the facts of the case and give expert testimony.
- 3.2 On the morning of the hearing, testifying appraisers should check-in with the Assessment Appeals Section with completed and approved cases.
  - All original AAB appraisals require the supervisor's approval and A. signature.

- B. Any District Real Property reductions over \$500,000, and any Major Real Property reductions over \$1,000,000, require the Principal Appraiser's approval and signature.
- C. District Appraisals assessment reduction recommendations in excess of \$5,000,000, and Major Appraisals assessment reduction recommendations in excess of \$10,000,000, must conform to the approval requirements as set forth in the *Policy and Operating Practices Manual Memo 1502-1-8, Special Value Change Approval.*
- 3.3 If new information is presented on the day of the hearing, the testifying appraiser should review it and determine whether a thorough analysis can be completed the day of the hearing.
  - Relevant and verifiable information pertaining to the valuation should be considered.
  - B. If additional time is needed for an analysis of the new information, the testifying appraiser should discuss with the AR the necessity to continue the case.
- 3.4 The testifying appraiser must sign and print their name on all cases on which they appear.
- 3.5 After the hearings, the testifying appraiser must check-out with the assessment appeals clerk at the front counter in the Assessment Appeals Section of Assessment Services.

#### 4. JOINT RESPONSIBILITIES

- 4.1 Prior to the day of the hearing, the AR or regional staff may initiate prehearing communications to discuss upcoming cases. This allows the Assessor's team to discuss pertinent issues related to the case in advance and prepare our appeal presentation. Complex cases, i.e. cases with high value changes and/or extenuating circumstance that affect the valuation, should be discussed by the assigned AR and preparing appraiser in advance of the hearing date whenever possible.
- 4.2 On the day of the hearing, the Assessor's Representative and the testifying appraiser will work together as a team to ensure that the Assessor is represented in a professional manner and that a fair and equitable value conclusion is presented to the Board.
- 4.3 The AR and testifying appraiser must ensure that AABs Case Activity Reports (CAR) (see Exhibit III) are completed for all Board cases that are granted a continuance or adjusted recommendation. The testifying appraiser prepares the report and gives a copy to the AR prior to check-out. The original CAR form must remain in the parcel jacket with the AAB-3 or narrative appraisal.

4.4 A Case Activity Report Summary will be prepared by the Chief Appraiser of Assessment Services and included in the Assessment Services Bi-Weekly Report.

### 5. AR'S AUTHORITY TO APPROVE RECOMMENDATIONS

At the hearing, the AR has the authority to approve recommendations to increase or decrease the assessed value, and to approve recommendations regarding ownership status/reassessability when either verifiable new evidence is presented or it can be ascertained that material errors or omissions were made in the preparation of the Assessor's case. Otherwise, a continuance of the hearing may be requested to provide more time to consider any new evidence or verify contested facts or omissions.

Any recommendation made at the AAB must include a written explanation, supporting documentation, and the signatures of both the AR and the testifying appraiser.

- A. Assessor's Representatives (AR's), in collaboration with testifying appraisers, will have the authority to approve recommendations made at the AAB up to 20 percent below the original value approved by the regional or area supervisor and/or manager(s), not to exceed \$5,000,000, District Real Property, and \$10,000,000, Major Real Property, assuming the applicant has provided new and compelling evidence not previously considered.
- B. The Chief of the Assessment Services Division will have the authority to approve recommendations at the AAB up to 30 percent below the original value approved by the regional or area supervisor and/or manager(s), not to exceed \$15,000,000, District Real Property, and \$20,000,000, Major Real Property, based on new and compelling justification.
- C. If on the day of the hearing and prior to case presentation before the Board, new evidence is submitted that could result in a recommendation in excess of the limits stated above, a continuance should be requested to allow further review and approval by the responsible District or Major Appraisals management, and the Assistant Assessor if required.

#### 6. AR'S AUTHORITY TO INITIATE RECOMMENDATIONS

On the date of the hearing, the AR may hold a conference with the applicant or agent to clarify the contested issues. In those instances, the AR will include the Assessor's appraiser. This is necessary so that the original position taken by the office and the facts upon which it is based can be made known to the AR, and any concerns as to the potential value changes can be appropriately discussed. At this conference the AR may conclude that it is appropriate to recommend a value change.

- 6.1 If the AR exercises the authority to make an AR initiated recommendation, the AR will meet privately with the appraiser/witness to explain the AR's reasoning and to provide the appraiser/witness the opportunity to express a contrary opinion prior to the resumption of the hearing. If the appraiser does not agree, he/she will not be asked to testify.
- AR initiated recommendations require the approval and signature of the Chief Appraiser of Assessment Services and the completion of a written report that includes factual, theoretical, or judgmental issues considered by the AR in the value recommendation (see Exhibit I). If the AR is recommending a change to an Ownership Division position, a written report (see Exhibit II) will be required.
- 6.3 The written reports will be submitted to the responsible Chief Appraiser, Chief of Assessment Services, Director of Roll Services (for all properties), Director of District Appraisals (for District properties), Director of Major Appraisals (for Major properties) and the Assistant Assessor of Operations within five business days of the hearing and will be promptly reviewed by the responsible Chief. Any concerns he or she has must be expressed within ten business days of the receipt of this report
- 6.4 If the appraiser/witness has questions or concerns regarding an AR initiated value recommendation, the appraiser should discuss the details with the AR. If additional clarification is necessary, the appraiser should bring the matter to the attention of his or her Supervising Appraiser or Principal Appraiser as soon as feasible following the hearing. The supervisor or manager should then contact the AR or the Chief of the Assessment Services Division to discuss the matter.
- 6.5 If the AR has questions or concerns regarding the quality of the regional or area case preparation and/or testimony, he/she may discuss the matter with the responsible Supervising Appraiser or manager(s).

#### 7. HEARING OFFICERS

The part-time AR's appearing before the Hearing Officer are assigned on an occasional basis in the capacity of both an Assessor's Representative and testifying appraiser. They present to the Hearing Officer, from the Assessor's records, whatever testimony they determine is proper and sufficient. Their authority and responsibility before the Hearing Officer are the same as that of the AR before the Appeals Board.

- 7.1 When an adjusted recommendation or continuance is granted, the reason should be entered on the AAB-3.
- 7.2 The part-time AR should sign and date all cases on which they appear.
- 7.3 If the part-time AR has any questions regarding the quality of the regional or area case preparation and/or testimony, he or she should discuss the matter with the lead Supervising Appraiser or manager as necessary.

George Renkei Assistant Assessor EXHIBIT I:

ASSESSOR'S REPRESENTATIVE INITIATED RECOMMENDATION ON A

CASE HEARD AT THE BOARD

# OFFICE OF THE ASSESSOR

July 31, 2006

TO:

Max Black, Chief

Assessment Services Division

FROM:

Mike Green, Assessor's Representative

Assessment Appeals Section

SUBJECT:

ASSESSOR'S REPRESENTATIVE INITIATED RECOMMENDATION ON A CASE HEARD AT THE BOARD (APPLICATION #05-012345)

AIN	Region	Property Use	Board	Date Heard	Issue
5094 - 023 - 010	23	Office	3	7/27/06	Prop 8
Applicant /Agent:	ABCD Cor	rporation / Susan Doe			
Assessor's Representative:	Mike Gree	n		Year(s):	2005
Preparing Appraiser:	John Jone	es		Roll Value(s):	\$51,000,000
Reviewing Appraiser:	Mary Brov	vn		Original Rec:	None
Testifying Appraiser:	John Jone	es		AR's Rec:	\$40,000,000

Property Description: 15 story office building at Wilshire and Normandie, Los Angeles.

Reason for Recommendation: Asbestos removal cost to cure (not previously taken into account but documented just prior to the hearing with contractors' written estimates).

c: Assistant Assessor, Operations
Director, Roll Services
Director, Major Appraisals
Chief Appraiser, Major Real Property

County of Los Angeles . Office of the Assessor

EXHIBIT II: AN

ASSESSOR'S REPRESENTATIVE INITIATED RECOMMENDATION ON

OWNERSHIP ISSUE HEARD AT THE BOARD

# OFFICE OF THE ASSESSOR

July 31, 2006

TO:

Max Black, Chief

Assessment Services Division

FROM:

Mike Green, Assessor's Representative

Assessment Appeals Section

SUBJECT:

ASSESSOR'S REPRESENTATIVE INITIATED RECOMMENDATION

ON AN OWNERSHIP ISSUE HEARD AT THE BOARD

(Application #05-012345)

AIN:

5094-023-011

Applicant/Agent:

ABCD Corporation / Susan Doe

Hearing Date:

7/27/06

Board:

Assessor's Witness:

Charles Johnson

#### Reason for Recommendation:

The facts of the case are ...

Ownership Division takes the position that ...

It is the Assessor's Representative's position that ...

Assistant Assessor, Operations Director, Roll Services Chief, Ownership Division Principal Appraiser, Legal Services

#### EXHIBIT III: AABS CASE ACTIVITY REPORT

ASSESSOR  Angeles  AABS CASE ACTIVITY REPORT	
Hearing Date:	
Application Number:	
Company Name:	
Issue:	
TESTIFYING APPRAISER:	CASE
ASSESSOR REPRESENTATIVE:	SE #
Property Description: REGION:	
AMENDED RECOMMENDATION	
ORIGINAL RECOMMENDATION Total \$  Comments/Justification	is a
Total \$	AIN
Total \$	AIN
Total \$  Comments/justification	AIN
CONTINUED / REBUTTED Taxpayer Req. Assessor Req.	AIN
CONTINUED / REBUTTED Taxpayer Req. Assessor Req.	AIN
CONTINUED / REBUTTED Taxpayer Req. Assessor Req.	AIN
CONTINUED / REBUTTED Taxpayer Req. Assessor Req.	AIX
Comments/Justification  CONTINUED / REBUTTED Taxpayer Req. Assessor Req.  Comments:  Testifying Appraiser (Sign):	AIN
Comments/Justification  CONTINUED / REBUTTED Taxpayer Req. Assessor Req.  Comments:  Testifying Appraiser (Sign):  Assessor's Representative (Sign):	AIN

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## POLICY AND OPERATING PRACTICE MANUAL

NO. 1500-0			0-04-01
EFFECTIVE		10-1-2012	
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DISTR.	CODE		71
FILE 1500-04-01.doc			-04-01.doc
PUBLIS	SHED	9-27-	2012

#### CHANGE IN OWNERSHIP REAPPRAISAL - DISTRICT GUIDELINES

This memo provides guidelines for managing the Paperless Transfer System (PTS) work flow in the district offices.

#### 1. PROCESSING GUIDELINES

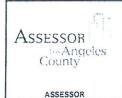
- 1.1 The Assessor attempts to complete the valuation of all identified change in ownership transactions by the conclusion of each work year. In addition, the goal of the department is to reappraise all transfers within 120 days from the date Ownership Services receives the deeds from the Registrar-Recorder/County Clerk.
- 1.2 In most cases, the Ownership Services Division completes the deed processing within 60 days. The transfer is then entered on PTS and the Valuations Division reappraises and enrolls the new values within 60 days, thus meeting the 120 day goal.
- 1.3 When deeds are processed by Ownership Services with fewer than 120 days remaining in the work year, the departmental goal is to have those transfer valuations completed and posted to the Property Data Base (PDB) by the last PDB update prior to roll closure.

#### 2. NOTIFICATION AND APPROVAL REQUIREMENTS

- 2.1 Transfers that exceed the 120 day period will be tracked through PTS to ensure proper notification and approval. The PTS On-Line Performance Audit Report has been developed for this purpose.
- 2.2 The following notification triggers have been established. From the date the transfer enters the PTS appraisal queue:
  - A. The Supervising Appraiser will approve transfers up to 120 days.
  - B. The Principal Appraiser must approve unvalued transfers <u>exceeding 120</u> days.
  - C. The District Chief must approve unvalued transfers exceeding 180 days.
  - D. The PTS On-Line Performance Audit Report that identifies transfers in excess of 120 days and 180 days will be compiled bi-weekly by Special Projects, accessed from PTS, approved by appropriate managers, and retained by the District Chief.
  - E. Transfers which remain in the PTS appraisal queue in excess of 1 year must be itemized in the District production report narratives with a brief

explanation as to the cause. The minimum reporting criteria will include AIN, Cluster and Recording Date, in addition to the reason for the delay.

George Renkei Assistant Assessor



## POLICY AND OPERATING PRACTICE MANUAL

NO.		5210-03-2	
EFFECTIVE		10-1-2012	
PAGE	1	OF	2
DISTR.	CODE		69
FILE	LE 5210-03-2.doc		
PUBLIS	SHED	9-27-	2012

#### ACCEPTING SALE PRICE IN TRANSFER REAPPRAISAL (SBE RULE 2)

According to SBE Rule 2, and in conformance with the Revenue and Taxation Code Section 110, the words "full cash value" and "fair market value" mean the price at which a property would transfer for cash or its equivalent under prevailing market conditions and with the following provisions:

- The property is exposed for sale in the open market for a reasonable time for the seller to find a purchaser and,
- 2) The buyer and seller have full knowledge of the uses to which the property may be put, both seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

Effective September 25, 1991, the State Board of Equalization amended Rule 2 to provide that value means the price at which the "unencumbered or unrestricted fee simple interest in the real property (subject to any legally enforceable governmental restrictions) would transfer for cash or its equivalent..."

The State Board of Equalization also amended Rule 2 to reflect that when a reappraisable change in ownership occurs, the presumption that the sales price is the full cash value may be rebutted by evidence that the market value of the property is significantly more or less than the price paid for it. (A significant deviation is one of more than 5%.) The burden of proving value lies with the party seeking to overcome the presumption.

The presumption that the sales price is the full cash value does not apply to:

- The transfer of any taxable possessory interest.
- 2) The transfer of real property when the consideration is in whole, or in part, in the form of ownership interests in a legal entity or the change in ownership occurs as a result of the acquisition of ownership interests in a legal entity.
- 3) The transfer of real property when the information prescribed in the change in ownership statement is not timely provided.

Rule 2 continues to provide that "if a single transaction results in a change in ownership of more than one parcel of real property, the purchase price shall be allocated among those parcels and other assets, if any, transferred based on the relative fair market value of each."

The amendment to Rule 2 is substantially in accord with our existing policy that the sale price be enrolled unless there is substantial and convincing evidence that the price is not an indication of market value. Departmental policy requires that appraisers provide written justification for not accepting the purchase price and references to supporting documentation. This information must be included in the comments section of the Paperless Transfer System (PTS).

The written justification should address the following questions:

- 1) Was this an arms-length, open-market transaction?
- 2) Was there favorable financing?
- 3) Was there any duress?
- 4) What was the listing price and how long was it on the market?
- 5) Is the contract rent at market? (if applicable)

The supporting documentation should include the following:

- 1) Aerial photographs of the subject and comparable properties.
- 2) Interior photographs of the subject and comparable properties, if available.
- 3) Property description and broker comments from MLS, Redfin, or other sources.
- 4) Subject lease information and market rent comparables. (if applicable)

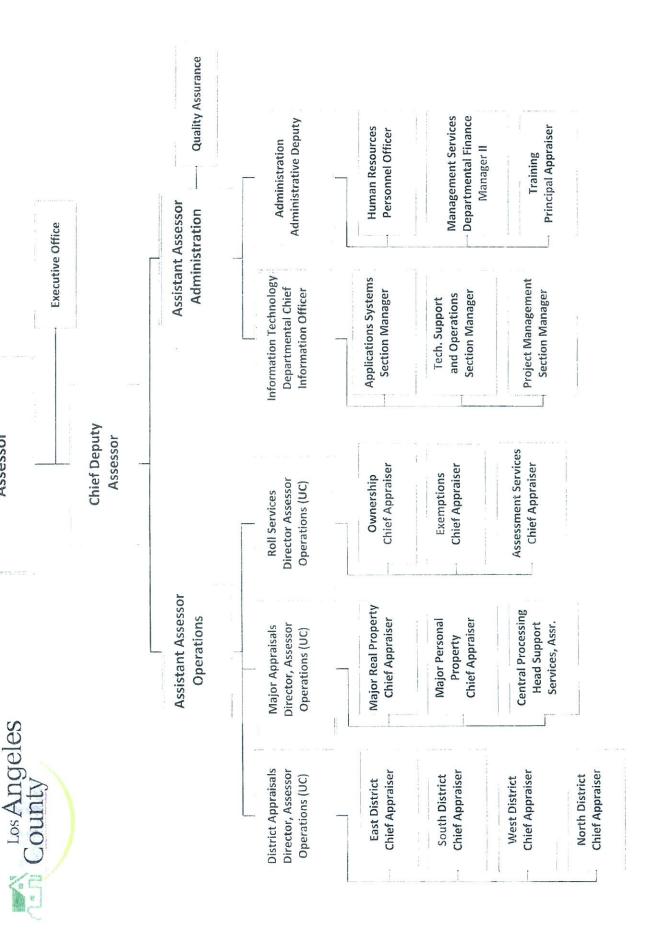
The justification and documentation must be reviewed by the Supervising Appraiser prior to PTS approval.

George Renkei Assistant Assessor

# OFFICE OF THE ASSESSOR ORGANIZATION CHART

Assessor

ASSESSOR





## COUNTY OF LOS ANGELES BOARD OF SUPERVISORS

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 383 LOS ANGELES, CALIFORNIA 90012 (213) 974-1411 • FAN (213) 620-9636

#### Attachment III

MEMBERS OF THE BOARD

GLORIA MOLINA

MARK RIDLEY-THOMAS

ZEV YAROSLAVSKY

DON KNABE

MICHAEL D. ANTONOVICH

December 14, 2012

TO:

Wendy L. Watanabe

Auditor-Controller

FROM:

Sachi A. Harnar

Executive Officer

SUBJECT:

MANAGEMENT AUDIT OF THE LOS ANGELES ASSESSOR

ASSESSMENT APPEALS RECOMMENDATIONS

Attached is the Executive Office of the Board of Supervisors' revised response to the recommendations contained in the Management Audit of the Los Angeles Assessor conducted by Strategica which reference the Assessment Appeals Board. Please see the attached document which reflects our response to these recommendations.

Please contact Celia Zavala, Administrative Deputy at (213) 974-1419 if you have any questions or need additional information.

SAH:md

Attachments

c: Celia Zavala

#### INTEGRITY

#### Recommendations:

B1. The County should amend the proposed County Code section 2.165 to prohibit contributions from tax agents and their immediate family members (by blood or marriage).

#### **Department Response:** PARTIALLY AGREE

On November 13, 2012, on joint recommendation by County Counsel, Registrar-Recorder/County Clerk and the Executive Officer of the Board, the Board of Supervisors adopted an ordinance amending Chapter 2.190 to prohibit contributions from tax agents to the County's Assessor or candidates for Assessor. The proposed County Code Section 2.165 conforms to the adopted County Code Section 2.190 which is limited to tax agents. As advised by County Counsel, immediate family members were not included as they opined that this would violate their First Amendment protections of free speech.

B2. The County should send notices to all agents logged in the AAB's CRM system as taxpayer representatives for the previous twelve months with instructions to register as tax agents under County Code Section 2.165 or face enforcement action.

#### Department Response: AGREE

The Executive Office is currently working on an ordinance which would require tax agents to register under County Code Section 2.165. If the ordinance is adopted, County departments involved with the Property Tax System will conduct outreach to applicants and their representatives notifying them of the new ordinance requirements.

B3. The AAB should amend its Rules to designate certain parties in the CRM system when an appeal is filed (taxpayer and their representative) and within 10 days (assigned appraiser and an AR). Rules should be amended to stipulate that taxpayer representation should be limited to tax agents registered under 2.165. Rules should be amended to prohibit communication with any other parties except those designated until a case is cleared. County Code Chapter 2.165 should be amended to prohibit exparte communication during an active appeal by tax agents with any violation resulting in the loss of registration and a fine. AAB Rules should

be amended prohibiting ex-parte communication by a taxpayer with an active appeals case with any violation resulting in the invalidation of their application. AAB Rules should be amended to prohibit ex-parte communication on the part of the Assessor or his/her staff with any violation resulting in disciplinary action (up to and including suspension) of the employee.

#### Department Response: PARTIALLY AGREE

The AAB's Customer Relationship Management (CRM) system already designates the taxpayers and their representatives. However, having CRM identify the assigned appraiser and assessor's representative is not feasible as each can change numerous times over the life of a case. It is the Office of the Assessor which is the party to the case, not the individual employees of that Office. In other words, the assigned appraiser and assessor's representative are fungible; as such it would not be feasible to identify the assigned appraiser and assessor's representative initially assigned to each case, and it would be inefficient for AAB to have to constantly update CRM with new assigned appraiser and assessor's representative information.

The AAB rules mirror the State Board of Equalization Property Tax Rules. They are meant as an explanation guide to taxpayers of how the assessment appeals process works. The Executive Office is in the process of developing Tax Agent Registration Rules in anticipation of the Board of Supervisors adopting the ordinance which would implement Chapter 2.165 of the County Code.

B4. AAB rules should be amended to require taxpayers/agents (and family members) to disclose gifts, campaign contributions or donations to the Assessor or any AAB member when filing an appeal.

#### Department Response: PARTIALLY AGREE

On November 13, 2012, on joint recommendation by County Counsel, Registrar-Recorder/County Clerk and the Executive Officer of the Board, the Board of Supervisors adopted an ordinance amending Chapter 2.190 to prohibit contributions from tax agents to the County's Assessor or candidates for Assessor. Again, as advised by County Counsel, immediate family members were not included as they opined that this would violate their First Amendment protections of free speech.

The Assessment Appeals Board has a Code of Ethics which prohibits them from accepting any favors or gifts from an Applicant, a witness, the Assessor, or an

Assessor's Representative, or from a lawyer or agent practicing before the Board or from others whose interests are likely to be submitted to him/her for judgment. It is our understanding that the Assessor's Office is developing an internal policy which will address the acceptance of gifts and favors by their staff.

#### **APPEALS**

#### Recommendations:

F1. The County should amend Chapter 2.44 of the County Code to charge a \$35 fee for filing an assessment appeal. This filing fee will help to defray the cost of the program and will help to discourage frivolous filings.

#### Department Response: AGREE

This office is currently looking into the feasibility of implementing a filing fee or pursuing legislation to implement filing fees or administrative fees on a statewide level.

F2. The AAB should amend Board rules to appoint a hearing officer to handle only continuances, withdrawals, and accepted recommendations rather than have these items presented to a board. Rules should waive appearance of parties once a hearing officer has approved the withdrawal, continuance or accepted recommendation. Withdrawals, continuances, and accepted recommendations should then be subject to Board review in the same fashion as other hearing officer decisions. The new AAB Case Activity Report can be used by the parties as a tool to document withdrawals, continuances, and accepted recommendations for review and approval by the hearing officer.

#### Department Response: PARTIALLY AGREE

Board rules already allow for hearing officers to approve withdrawals, continuances and Assessor's recommendations up to \$3 million in roll value for commercial/industrial or on single family residences, and other residential property up to four units regardless of value. This is in accordance with Section 1637 of the Revenue and Taxation Code which sets forth conditions under which an application may be heard by a hearing officer. Additionally the County of Los Angeles has a non-binding system and a roll value of up to \$3 million for certain types of properties based on resolutions adopted by the Board of Supervisors pursuant to Sections 1640.1 and 1641.1. Thus hearing officers may hear appeals on commercial/industrial property with a roll value up to \$3 million or on

single family residences, and other residential property up to four units regardless of value. All other appeals are scheduled before the Assessment Appeals Board. Should the County revert to a binding system, the value of the property appealed on the current assessment role could not exceed \$500,000.

As such, the County would not want to amend its Board Rules to appoint a hearing officer to handle only continuances, withdrawals and Assessor's recommendations, as this would force the county to become a binding system and would increase the number of appeal cases before the Assessment Appeals Board.

F3. The AAB should amend rules such that parties to an appeal must show true hardship for second (or subsequent) continuance requests. Hearing officers presented with continuance requests should deny requests except for hardship. Owner-occupied SFR cases (without tax agent representation) should be exempt from this rule. Appendix D shows the proposed appeals process.

#### Department Response: DISAGREE

The decision to continue a case should be left at the discretion of the Assessment Appeals Board as long as the requesting party shows good and reasonable cause. It is not clear by the report what is recommended as a true hardship for additional continuance requests. In addition, it should be noted that hearing officers do not typically grant continuances but rather unset cases to the Assessment Appeals Board.

F7. The County should reengineer the AAB's CRM system to incorporate Assessor's scheduling and data requirements and repair data conversion issues.

#### Department Response: PARTIALLY AGREE

The County should create a single application that would consolidate business functions between AAB, Assessor's, Auditor Controller and the Treasurer and Tax Collector. Short of having this, each department will continue to maintain its own applications independent of each other. For that reason, once the data files are transferred from one department to the other department, it has been up to that individual department's IT team to convert and upload the data to its own

application. Therefore, the Assessor's scheduling system would be created and maintained by the Assessor and not the Executive Office.



## COUNTY OF LOS ANGELES BOARD OF SUPERVISORS

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 383 LOS ANGELES, CALIFORNIA 90012 (213) 974-1411 - FAX (213) 620-6636

#### Attachment III

MEMBERS OF THE BOARD

GLORIA MOLINA

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MICHAEL D. ANTONOVICH

December 14, 2012

TO:

Wendy L. Watanabe

Auditor-Controller

FROM:

Sachi A. Hamar

Executive Officer

SUBJECT:

MANAGEMENT AUDIT OF THE LOS ANGELES ASSESSOR

ASSESSMENT APPEALS RECOMMENDATIONS

Attached is the Executive Office of the Board of Supervisors' revised response to the recommendations contained in the Management Audit of the Los Angeles Assessor conducted by Strategica which reference the Assessment Appeals Board. Please see the attached document which reflects our response to these recommendations.

Please contact Celia Zavala, Administrative Deputy at (213) 974-1419 if you have any questions or need additional information.

SAH:md

Attachments

c: Celia Zavala

#### INTEGRITY

#### Recommendations:

B1. The County should amend the proposed County Code section 2.165 to prohibit contributions from tax agents and their immediate family members (by blood or marriage).

#### Department Response: PARTIALLY AGREE

On November 13, 2012, on joint recommendation by County Counsel, Registrar-Recorder/County Clerk and the Executive Officer of the Board, the Board of Supervisors adopted an ordinance amending Chapter 2.190 to prohibit contributions from tax agents to the County's Assessor or candidates for Assessor. The proposed County Code Section 2.165 conforms to the adopted County Code Section 2.190 which is limited to tax agents. As advised by County Counsel, immediate family members were not included as they opined that this would violate their First Amendment protections of free speech.

B2. The County should send notices to all agents logged in the AAB's CRM system as taxpayer representatives for the previous twelve months with instructions to register as tax agents under County Code Section 2.165 or face enforcement action.

#### Department Response: AGREE

The Executive Office is currently working on an ordinance which would require tax agents to register under County Code Section 2.165. If the ordinance is adopted, County departments involved with the Property Tax System will conduct outreach to applicants and their representatives notifying them of the new ordinance requirements.

B3. The AAB should amend its Rules to designate certain parties in the CRM system when an appeal is filed (taxpayer and their representative) and within 10 days (assigned appraiser and an AR). Rules should be amended to stipulate that taxpayer representation should be limited to tax agents registered under 2.165. Rules should be amended to prohibit communication with any other parties except those designated until a case is cleared. County Code Chapter 2.165 should be amended to prohibit exparte communication during an active appeal by tax agents with any violation resulting in the loss of registration and a fine. AAB Rules should

be amended prohibiting ex-parte communication by a taxpayer with an active appeals case with any violation resulting in the invalidation of their application. AAB Rules should be amended to prohibit ex-parte communication on the part of the Assessor or his/her staff with any violation resulting in disciplinary action (up to and including suspension) of the employee.

#### Department Response: PARTIALLY AGREE

The AAB's Customer Relationship Management (CRM) system already designates the taxpayers and their representatives. However, having CRM identify the assigned appraiser and assessor's representative is not feasible as each can change numerous times over the life of a case. It is the Office of the Assessor which is the party to the case, not the individual employees of that Office. In other words, the assigned appraiser and assessor's representative are fungible; as such it would not be feasible to identify the assigned appraiser and assessor's representative initially assigned to each case, and it would be inefficient for AAB to have to constantly update CRM with new assigned appraiser and assessor's representative information.

The AAB rules mirror the State Board of Equalization Property Tax Rules. They are meant as an explanation guide to taxpayers of how the assessment appeals process works. The Executive Office is in the process of developing Tax Agent Registration Rules in anticipation of the Board of Supervisors adopting the ordinance which would implement Chapter 2.165 of the County Code.

B4. AAB rules should be amended to require taxpayers/agents (and family members) to disclose gifts, campaign contributions or donations to the Assessor or any AAB member when filing an appeal.

#### Department Response: PARTIALLY AGREE

On November 13, 2012, on joint recommendation by County Counsel, Registrar-Recorder/County Clerk and the Executive Officer of the Board, the Board of Supervisors adopted an ordinance amending Chapter 2.190 to prohibit contributions from tax agents to the County's Assessor or candidates for Assessor. Again, as advised by County Counsel, immediate family members were not included as they opined that this would violate their First Amendment protections of free speech.

The Assessment Appeals Board has a Code of Ethics which prohibits them from accepting any favors or gifts from an Applicant, a witness, the Assessor, or an

Assessor's Representative, or from a lawyer or agent practicing before the Board or from others whose interests are likely to be submitted to him/her for judgment. It is our understanding that the Assessor's Office is developing an internal policy which will address the acceptance of gifts and favors by their staff.

#### **APPEALS**

#### Recommendations:

F1. The County should amend Chapter 2.44 of the County Code to charge a \$35 fee for filing an assessment appeal. This filing fee will help to defray the cost of the program and will help to discourage frivolous filings.

#### Department Response: AGREE

This office is currently looking into the feasibility of implementing a filing fee or pursuing legislation to implement filing fees or administrative fees on a statewide level.

F2. The AAB should amend Board rules to appoint a hearing officer to handle only continuances, withdrawals, and accepted recommendations rather than have these items presented to a board. Rules should waive appearance of parties once a hearing officer has approved the withdrawal, continuance or accepted recommendation. Withdrawals, continuances, and accepted recommendations should then be subject to Board review in the same fashion as other hearing officer decisions. The new AAB Case Activity Report can be used by the parties as a tool to document withdrawals, continuances, and accepted recommendations for review and approval by the hearing officer.

#### Department Response: PARTIALLY AGREE

Board rules already allow for hearing officers to approve withdrawals, continuances and Assessor's recommendations up to \$3 million in roll value for commercial/industrial or on single family residences, and other residential property up to four units regardless of value. This is in accordance with Section 1637 of the Revenue and Taxation Code which sets forth conditions under which an application may be heard by a hearing officer. Additionally the County of Los Angeles has a non-binding system and a roll value of up to \$3 million for certain types of properties based on resolutions adopted by the Board of Supervisors pursuant to Sections 1640.1 and 1641.1. Thus hearing officers may hear appeals on commercial/industrial property with a roll value up to \$3 million or on

single family residences, and other residential property up to four units regardless of value. All other appeals are scheduled before the Assessment Appeals Board. Should the County revert to a binding system, the value of the property appealed on the current assessment role could not exceed \$500,000.

As such, the County would not want to amend its Board Rules to appoint a hearing officer to handle only continuances, withdrawals and Assessor's recommendations, as this would force the county to become a binding system and would increase the number of appeal cases before the Assessment Appeals Board.

F3. The AAB should amend rules such that parties to an appeal must show true hardship for second (or subsequent) continuance requests. Hearing officers presented with continuance requests should deny requests except for hardship. Owner-occupied SFR cases (without tax agent representation) should be exempt from this rule. Appendix D shows the proposed appeals process.

#### Department Response: DISAGREE

The decision to continue a case should be left at the discretion of the Assessment Appeals Board as long as the requesting party shows good and reasonable cause. It is not clear by the report what is recommended as a true hardship for additional continuance requests. In addition, it should be noted that hearing officers do not typically grant continuances but rather unset cases to the Assessment Appeals Board.

F7. The County should reengineer the AAB's CRM system to incorporate Assessor's scheduling and data requirements and repair data conversion issues.

#### Department Response: PARTIALLY AGREE

The County should create a single application that would consolidate business functions between AAB, Assessor's, Auditor Controller and the Treasurer and Tax Collector. Short of having this, each department will continue to maintain its own applications independent of each other. For that reason, once the data files are transferred from one department to the other department, it has been up to that individual department's IT team to convert and upload the data to its own

application. Therefore, the Assessor's scheduling system would be created and maintained by the Assessor and not the Executive Office.



## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS JOHN NAIMO JAMES L. SCHNEIDERMAN

January 18, 2013

TO:

Supervisor Mark Ridley-Thomas, Chairman

Supervisor Gloria Molina Supervisor Zev Yaroslavsky Supervisor Don Knabe

Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe

Auditor-Controller

SUBJECT:

OFFICE OF THE ASSESSOR - REVIEW OF BUSINESS OPERATIONS

(Board Agenda Item 36-A, April 10, 2012)

At the April 10, 2012 meeting, your Board instructed the Auditor-Controller (A-C) to review four areas in the Assessor's Office (Assessor's): 1) review the Assessor's Fiscal Year (FY) 2012-13 property roll value forecast; 2) a comprehensive management audit of the Assessor's; 3) a review of the Assessor's business operations; and 4) a review of properties that had a reduction in assessed value of 20% or more from December 2010 to January 2012. The first area, a review of the Assessor's FY 2012-13 roll forecast, was completed and issued to your Board on May 15, 2012. The second area, a comprehensive management audit was completed and issued January 3, 2013. The fourth area, reviewing properties with reductions in assessed value of 20% or more, is ongoing, and we will provide a report to your Board when the review is complete.

This report covers the third area requested by your Board, a review of the Assessor's business operations. Our review included evaluating the Assessor's internal controls and compliance with the County fiscal policies and procedures in key areas such as payroll/personnel, procurement, cash handling, and expenditures. We also reviewed the Assessor's budgetary performance, trust funds, and revolving funds.

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#### **Summary of Findings**

Our review disclosed that the Assessor's needs to take action to improve controls over its fiscal operations in a number of areas, including payroll/personnel, procurement, cash handling, and expenditures.

It should be noted that all of the issues identified in our review, except for the improper coding of vacation time, not recording overtime on some employee timecards, and issues related to the elected Assessor's credit cards discussed below, are comparable to the results of our fiscal audits of other County departments.

The following is a summary of the three issues noted in our review that are unique to the Assessor's.

Improper Timecard Changes – Three (25%) of 12 Assessor's employees reviewed indicated that they were told to improperly record vacation time on days when they were at work. In addition, one employee indicated his timecard was changed without his knowledge to use his accrued vacation time. It appears these changes were made to avoid having to pay the employees for their accrued vacation time. While the number of hours involved in these cases was small, having employees code vacation on days they worked, and submitting inaccurate timecards violates federal, State, and County rules.

We notified Assessor's management of this issue immediately, and they indicated that they plan to issue a memo to all employees to stop the practice.

**Unrecorded Overtime** – Six of 13 (46%) Assessor's employees interviewed reported that they worked overtime, but did not always record the overtime on their timecards. Three of the employees indicated that they were allowed to "flex" their time (e.g., work overtime on one day, and leave early another day, etc.), and the other three indicated that they do not always record overtime on their timecards because requesting overtime approval is inconvenient. Allowing employees to not report overtime on the days it is worked violates federal, State, and County rules.

#### **County Credit Cards**

The Assessor's did not take or cancel the elected Assessor's (Mr. John Noguez) Voyager (gasoline) card when he went on leave of absence on June 1, 2012. Mr. Noguez continued to use the card for three weeks, making six purchases, totaling \$383, after he started his leave. In addition, Mr. Noguez used the Voyager card to make five purchases in January and May 2012, totaling \$198, and it is unclear whether these purchases, including two in Las Vegas, were business-related. We will work with Assessor's management and County Counsel to determine if the Assessor's should pursue reimbursement for any of these transactions.

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The following is a summary of the issues noted in the Assessor's operations that are comparable to the results of audits of other County departments.

#### **Procurement**

**Split Purchases** - We reviewed 25 non-agreement purchases, and noted six (24%) were split to stay below the Assessor's \$5,000 delegated authority. We also noted that the Assessor's split five (20%) additional purchases to avoid having to obtain price quotes.

Other Purchasing Issues - The Assessor's frequently purchased remanufactured print toner cartridges, an agreement item, from a non-agreement vendor, and paid more than the agreement price. For example, on three purchases reviewed, totaling \$4,644, the Assessor's paid a total of \$1,550 (35%) more than the agreement prices. The Assessor's also did not ensure they received the agreement price for one (10%) of ten agreement purchases reviewed, resulting in an overpayment of approximately \$1,200. In addition, ten (77%) of 13 sole source purchases reviewed, totaling \$33,600, should not have been made as sole source purchases, because the items were available from other vendors. The Assessor's may have paid lower prices if they had obtained the required price quotes.

#### **Cash Handling**

The Assessor's did not reconcile its cash collections and deposits to ensure that all collections are accounted for, and did not document cash transfers between employees or units. In addition, the Assessor's regularly had an employee use his own money to make change, instead of establishing a change fund, as required. The Assessor's also billed customers an average of 73 days after providing services, and did not establish receivables timely. This resulted in delayed collections, and some revenue being recognized in the wrong fiscal year.

#### Mileage

The Assessor's does not ensure that employee mileage claims were accurate. We reviewed 15 claims, and noted that 11 (73%) of the employees claimed more miles than the distance calculated by various internet mapping applications, resulting in \$809 in possible overpayments. We also noted one (7%) instance where an employee claimed and was paid for mileage on a day when his timecard indicated he did not work. In addition, eight (53%) of the claims reviewed were missing some required information (e.g., valid/complete address, times/dates, trip purpose, etc.). Finally, all five supervisors we interviewed indicated they routinely approve employees' mileage claims without thoroughly reviewing them.

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#### **Trust Funds**

The County Fiscal Manual (CFM) requires departments to reconcile their trust records and maintain ledgers of trust account balances and activity. The Assessor's does not have ledgers for three of its four trust funds, and does not reconcile any of its trust funds, which have a combined balance of \$8.44 million. Because of the lack of reconciliations and documentation, the Assessor's could not identify the source of \$18,000 deposited in one trust fund, which had been in the trust fund for at least five years.

#### Revolving Funds

We reviewed the Assessor's revolving fund transactions from FY 2011-12, and noted that five (83%) of the six purchases reviewed, totaling \$2,078, should not have been made with the revolving fund. We also noted that the Assessor's used its revolving fund checking account to deposit and issue payments for charitable-giving activities/contributions (e.g., March of Dimes Campaign, etc.). The Assessor's should consider establishing a separate checking account for charitable giving collections.

Details of these and other audit findings and recommendations are included in the attached report.

#### Review of Report

We discussed the results of our review with Assessor's management. The Assessor's generally agrees with our findings and recommendations. The Assessor's response (Attachment II) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

We thank Assessor's management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:YK

#### Attachments

c: William T Fujioka, Chief Executive Officer Santos H. Kreimann, Chief Deputy Assessor Sachi A. Hamai, Executive Officer, Board of Supervisors Department Heads Public Information Office Audit Committee

# Los Angeles County Office of the Assessor

**Comprehensive Fiscal Review** 

December 2012

Prepared by:

**Department of Auditor-Controller** 

#### OFFICE OF THE ASSESSOR FISCAL REVIEW

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### OFFICE OF THE ASSESSOR COMPREHENSIVE FISCAL REVIEW

#### Background

The Office of the Assessor (Assessor's) is responsible for identifying and valuing all secured and taxable unsecured property in Los Angeles County. The values determined by the Assessor's are the basis for the property taxes levied on the property. The Assessor's is the largest agency of its kind in the United States, with approximately 1,350 employees in seven offices located throughout the County. The Assessor's Fiscal Year (FY) 2011-12 budget was approximately \$153 million.

On April 10, 2012, the Board instructed the Auditor-Controller (A-C) to conduct a comprehensive audit of the Assessor's business operations. As part of this audit, we reviewed the Assessor's internal controls and compliance with County fiscal policies and procedures in key fiscal areas, including payroll/personnel, procurement, expenditure accounting, trust funds, and cash. We also reviewed the Assessor's internal controls over revolving funds, County credit cards, mileage and travel reimbursements, and evaluated their budgetary performance.

#### FINDINGS AND RECOMMENDATIONS

#### Adherence to the County Budget

The Assessor's uses one budget unit to monitor and report on its six Divisions: Executive Office, Administrative Services, Roll Services, District Appraisals, Major Appraisals, and Information Technology. Based on our discussions with the Chief Executive Office, based on its size and operations, one budget unit is appropriate for the Assessor's.

We compared the Assessor's actual financial results to its final budget for FYs 2009-10, 2010-11, and 2011-12. The results are summarized in the table on the next page.

E	Budget to Actual Finan Fiscal Year 2		
	Budget	Actual	Over or (Under) Budget
Expenditures	\$153,094,000	\$143,891,107	(\$9,202,893)
Intrafund Transfer	(\$87,000)	(\$61,950)	\$25,050
Revenue	\$75,955,000	\$66,777,252	(\$9,177,748)
Net County Cost	\$77,052,000	\$77,051,905	(\$95)
	Fiscal Year 2	010-11	
	Budget	Actual	Over or (Under) Budget
Expenditures	\$161,160,000	\$153,328,436	(\$7,831,564)
Intrafund Transfer	(\$110,000)	(\$97,664)	\$12,336
Revenue	\$76,745,000	\$74,174,707	(\$2,570,293)
Net County Cost	\$84,305,000	\$79,056,065	(\$5,248,935)
	Fiscal Year 2	009-10	
	Budget	Actual	Over or (Under) Budget
Expenditures	\$161,994,000	\$154,615,574	(\$7,378,426)
Intrafund Transfer	(\$167,000)	(\$80,321)	\$86,679
Revenue	\$70,923,000	\$68,180,839	(\$2,742,161)
Net County Cost	\$90,904,000	\$86,354,414	(\$4,549,586)

Overall, the Assessor's has operated within its budgeted Net County Cost (NCC). In FYs 2009-10 and 2010-11, the Assessor's NCC was approximately 5% and 6.2% below its budget, respectively. For FY 2011-12, the Assessor's NCC was below budget by an immaterial amount. In all three fiscal years, we noted that the Assessor's underrealized its budgeted revenues, and underspent its budgeted expenditures. However, since expenditure savings exceeded under-realized revenues, the Assessor's was under its budgeted NCC in each of the three fiscal years.

The Assessor's attributed the under-realized revenues to collecting less fee income from supplemental assessments for new construction, changes of ownership, etc., than anticipated. For example, in FY 2011-12, the Assessor's collected approximately \$3.1 million less in fees and \$3.4 million less in penalties (e.g., assessed to legal entities when they fail to report ownership changes within 45 days, etc.) than anticipated. However, that was offset by lower than budgeted expenditures.

The Assessor's indicated that the lower expenditures were primarily due to savings in salaries and employee benefits (e.g., attrition, hiring freeze, etc.), and reduced Information Technology (IT) expenditures.

#### Payroll/Personnel

#### Inappropriate Timecard Changes and Reduction of Vacation Hours

County policy requires that employees who have more than 320 hours of accrued vacation time at the end of each calendar year be paid for their excess vacation time. To prevent or minimize vacation payouts, the Assessor requires employees to take time off to reduce their vacation balances below the limit.

Three (25%) of 12 Assessor's employees interviewed indicated they were instructed to improperly record vacation time on days when they were at work. In addition, one employee indicated his timecard was changed without his knowledge to reduce his accrued vacation time.

It appears these timecard changes were made to reduce the employees' vacation time so they would not have to be paid for excess vacation time. While the number of hours involved in these cases was small, improper recording of time worked is a violation of the federal Fair Labor Standards Act (FLSA), State labor laws (e.g., California Labor Code Section 206.5, etc.), County Fiscal Manual (CFM) Section 3.1.6, and County Department of Human Resources' (DHR) Policy 360. This practice could also make the County liable for damages.

We immediately notified Assessor's management of this issue, recommended that they issue a memo to all employees to stop the practice, and resolve any potential underpayments to employees.

#### Recommendation

 Assessor's management discontinue the practice of changing employee timecards to reduce vacation payouts, and ensure that employee timecards reflect actual hours worked.

#### Unrecorded Overtime

We interviewed 13 Assessor's employees at various pay locations to determine if the Assessor's was complying with County overtime policy. Six (46%) employees in the IT Division indicated that they work overtime, but did not always record the overtime on their timecards. Three of the six employees indicated that they had verbal approval from their supervisors to "flex" their time (e.g., work overtime on one day, and leave early another day, etc.). The remaining three employees indicated that they did not always record overtime on their timecards because requesting overtime approval is inconvenient.

Not reporting overtime when it is worked violates federal FLSA, State Labor Code Section 510, and County Code 6.15, and could result in potential liability to the County. Assessor's management needs to ensure that employee timecards reflect actual hours

worked, and any variances, including overtime, are accurately reported, and paid or accrued.

#### Recommendation

 Assessor's management discontinue allowing employees to work unrecorded overtime, and ensure that employee overtime is appropriately approved by management and reported.

#### Timecard Discrepancies

The Assessor's implemented the County's on-line eCAPS time collection system in some offices in January 2010. We reviewed a sample of 38 eCAPS timecards to determine whether employees accurately completed/reported their time. Specifically, we compared the hours reported on the timecards to other attendance-related documents (i.e., Daily Absence Reports, Time and Volume System, etc.), and interviewed employees and supervisors. We noted two (5%) timecards that were inaccurate. One employee's timecard indicated that he worked ten hours on a day when he was absent. The second employee's timecard showed that he worked ten hours for one day, when the employee actually worked nine hours, and took one hour off, which should have been coded as one hour of vacation.

The Assessor's should correct these timecards, adjust the employees' leave balances, remind employees of the requirement to accurately report their time, and ensure that supervisors review timecards for accuracy before they are approved.

#### Recommendations

#### Assessor's management:

- 3. Correct the inaccurate timecards, and adjust the employees' leave balances accordingly.
- Remind employees of the requirement to accurately report their time, and ensure that supervisors review employee timecards for accuracy before they are approved.

#### eCAPS Time Collection Exception Reports

CFM Section 3.1.7 requires payroll staff to generate exception reports (e.g., Single Approver, Missing Timesheets, etc.) from eCAPS, follow up, and document the results. We noted that Assessor's Payroll staff did not always generate these exception reports for all pay locations, and did not always follow up on all exceptions on the reports. For example, Payroll staff only followed up on eight (17%) of 46 exceptions shown on the April 30, 2012 Audit Trail Report.

#### Recommendation

 Assessor's management ensure that Payroll staff generate eCAPS
 Time Collection Exception Reports for all pay locations, and follow up
 on all exceptions, as required.

#### Prior Review - Recommendation Status

On March 21, 2011, we issued a report on the Assessor's compliance with the County's payroll and personnel policies. Our report included 22 recommendations in areas such as payroll processing, terminations, bonuses, time and attendance, and industrial accidents, etc. As part of our current review, we followed up on 15 of 22 recommendations from our prior review to determine if the Assessor's had implemented the recommendations. The remaining seven recommendations were no longer applicable because they related to the prior manual timecard process, or were less material than the 15 we reviewed.

Our follow-up review disclosed that the Assessor's had not fully implemented six (40%) of the 15 recommendations reviewed. The current status of these recommendations is detailed below.

#### Recommendation 9 from the March 21, 2011 Report

Assessor's management ensure out-of-class bonuses are only used temporarily until employees are appointed to a new position or returned to their previous position.

#### Current Status: NOT IMPLEMENTED

Employees can temporarily receive an out-of-class bonus for performing the duties of a higher level position, until they are appointed to a new position, or returned to their previous assignment. As noted in our prior review, the Assessor's was not using out-of-class bonuses properly. We noted nine Assessor's employees who received out-of-class bonuses for more than one year, including one employee who had been receiving an out-of-class bonus for 18 years.

Our follow-up review indicates that eight of the employees were no longer receiving out-of-class bonuses. However, the one employee who had been receiving a bonus for 18 years was still receiving it. Assessor's management indicated that this employee did not apply for the higher level position during the last exam, and we noted that she is not on the active list of candidates currently eligible for promotion. Per DHR, if an active eligible list exists, the Assessor's must appoint the employee to the new position, or discontinue the bonus if she is unwilling or unable to pass the exam, or is unreachable. The Assessor's should

immediately discontinue the out-of- class bonus for this employee, and work with DHR and County Counsel to determine if the bonus constitutes an overpayment.

#### Recommendation 12 from the March 21, 2011 Report

Assessor's management ensure staff reviews and compares the Temporary Disability Payments Report to CWTAPPS and corrects/resolves incorrect payments.

#### Current Status: PARTIALLY IMPLEMENTED

To assist County departments with monitoring Temporary Disability (TD) payments, the A-C's Countywide Payroll Division provides a Temporary Disability Payments report with the TD amount, period of coverage, etc. Our follow-up review indicates that Assessor's staff are currently reviewing the report and comparing it to CWTAPPS/eHR. However, Assessor's staff have not resolved the incorrect TD payments identified in our prior review. The Assessor's should immediately resolve the overpayments, as previously recommended.

#### Recommendation 16 from the March 21, 2011 Report

Assessor's management restrict access to personnel and payroll files to appropriate staff and ensure employees do not have access to their own files.

#### **Current Status: NOT IMPLEMENTED**

CFM Sections 3.1.3 and 3.1.10 require departments to restrict access to payroll and personnel files to authorized personnel, and maintain the files separately. In our 2011 report, we noted that the Assessor's stored payroll and personnel files in a common area, accessible to all Payroll and Personnel staff, and that staff had access to their own files.

We observed that the files had not been moved or secured since our last review, and were still accessible by all Payroll and Personnel staff. The Assessor's needs to separately maintain its payroll and personnel files.

#### Recommendation 20 from the March 21, 2011 Report

Assessor's management ensure unannounced payoffs are conducted at all pay locations at least annually.

#### Current Status: NOT IMPLEMENTED

CFM Section 3.1.12 requires departments to conduct payroll payoffs at least annually to ensure that all employees are bona fide. We noted that two

Assessor's pay locations had not conducted payoffs since 2004. In addition, one pay location did not obtain some employees' signatures. The Assessor's should conduct payoffs at all pay locations annually.

#### Recommendation 21 from the March 21, 2011 Report

Assessor's management ensure staff independent of the payroll/personnel function verify written approval for each supplemental warrant on the CWPAY Supplemental Departmental Warrant Register.

#### Current Status: NOT IMPLEMENTED

Supplemental payroll warrants are issued when employees are underpaid. CFM Section 3.2.3 requires an employee, independent of the payroll/personnel function, to verify that written approval exists for each supplemental warrant. We noted that Assessor's staff with personnel functions did not perform this verification.

#### Recommendation 22 from the March 21, 2011 Report

Assessor's management ensure payroll staff use CWTAPPS reports to monitor the Department's payroll operations and retain the reports at least five years.

#### Current Status: PARTIALLY IMPLEMENTED

After our 2011 review, Assessor's staff reviewed the CWTAPPS reports, as required. However, after eHR was implemented in April 2012, CWTAPPS reports were replaced by similar eHR reports. We noted that Assessor's staff were not reviewing the corresponding eHR exception reports after the new system was implemented.

#### Recommendation

6. Assessor's management implement all recommendations from the 2011 Payroll/Personnel review.

#### Procurement

The Assessor's Management Services Division (Procurement) is responsible for purchasing goods and services for the Assessor's, which includes reviewing requisitions, obtaining price quotes, reviewing invoices for accuracy, and maintaining supply inventories, etc. The Assessor's FY 2011-12 services and supplies budget was approximately \$24 million.

We reviewed the Assessor's procurement practices for compliance with County policies and procedures. This included reviewing a sample of purchases, interviewing Assessor's personnel, and evaluating purchasing, payment, and inventory controls. We also reviewed the Assessor's controls over access to the County's accounting and purchasing system's payment and procurement modules (eCAPS and eProcurement).

#### Agreement and Non-Agreement Purchases

The Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items through a competitive solicitation process. Departments can purchase items covered by ISD agreements without a transaction limit in most cases, and do not need to obtain price quotes. Departments cannot use these agreements to purchase non-agreement items.

ISD delegates authority to departments to purchase non-agreement items, up to a certain limit. The Assessor's delegated authority is \$5,000. For non-agreement purchases from \$1,500 to \$5,000, the Assessor's must obtain three price quotes, unless the item is only available from one vendor, and cannot be easily substituted (sole source purchases). The Assessor's must send requisitions to ISD for all non-agreement purchases over \$5,000.

We reviewed a sample of the Assessor's agreement and non-agreement purchases, and noted several instances where the Assessor's did not follow purchasing requirements, resulting in the County paying more for goods and services than it should have.

- Split Purchases We reviewed 25 non-agreement purchases and noted six (24%) purchases, totaling \$19,948, had been split to stay below the Assessor's \$5,000 delegated authority. For example, the Assessor's split a purchase of \$8,091.62 into two purchases of \$4,999.96 and \$3,091.66. In another instance, "split order" was printed on the vendor's quotation, but it appears that Assessor's staff attempted to redact that information with a marker. We also noted that the Assessor's split five (20%) other purchases to stay below \$1,500 to avoid having to obtain price quotes from vendors.
- Inappropriate Use of Vendor Agreements and POs We noted that the Assessor's frequently purchased remanufactured toner cartridges, an agreement item, from a non-agreement vendor, and paid more than the agreement price. For example, on three purchases reviewed, totaling \$4,644, the Assessor's paid \$1,550 (35%) more than the agreement prices. In FY 2011-12, the Assessor's made at least 50 such purchases, totaling approximately \$25,000. The Assessor's should review vendor agreements before purchasing items to ensure they purchase agreement items from agreement vendors.

In addition, on one (10%) of ten agreement purchases reviewed, the Assessor's purchased a non-agreement service, totaling \$5,900, from an agreement vendor, as an agreement service. Since the purchase exceeded the Assessor's delegated authority, it should have been submitted to ISD for processing.

- Agreement Prices Not Received For one (10%) of the ten agreement purchases reviewed, totaling \$8,976, the Assessor's did not ensure they received the agreement prices, resulting in an overpayment of approximately \$1,200. It appears Assessor's staff did not verify the agreement prices before paying the vendor.
- Inappropriate Sole Source Purchases We reviewed 13 sole source purchases, and noted that ten (77%) purchases, totaling \$33,600, did not meet the sole source requirement since the items were available from other vendors. The Assessor's might have paid lower prices if they had obtained the required quotes.
- Requisition Approvals County policy requires purchases exceeding \$25,000 to be approved by specific level managers (i.e., department head, chief deputy, executive staff manager or equivalent level). We noted that the Assessor's did not always comply with this policy. We reviewed three purchases exceeding \$25,000, and noted that two (66%) purchases were approved by a lower level manager than required.

#### Recommendations

#### Assessor's management:

- Ensure that Procurement staff do not split purchases to circumvent the Department's delegated purchasing authority or the quote requirement.
- Ensure Procurement staff review vendor agreements, make purchases from the appropriate sources (i.e., agreement or non-agreement vendors), and send non-agreement purchases over \$5,000 to ISD for processing.
- Require staff to verify agreement prices.
- Ensure Procurement staff obtain price quotes as required by County purchasing policies, and only make sole source purchases that meet County criteria.
- 11. Ensure all purchases are approved by appropriate level managers.

#### General Purchasing and Payment Controls

CFM requires departments to obtain approved requisitions before ordering goods/services, ensure requisitions and purchase orders include sufficient detail, and verify that goods and services are received before paying vendors, etc. We reviewed 38 purchases made in FYs 2010-11 and 2011-12, totaling approximately \$508,000, and noted the following:

- Chief Executive Office (CEO) Approval Departments are currently required
  to obtain CEO approval to purchase any non-essential services and supplies,
  and capital assets. We reviewed eight non-essential purchases, and noted that
  the Assessor's did not obtain CEO approval for three (38%) purchases, totaling
  \$22,840.
- Purchase Requisitions and Purchase Orders The Assessor's made 12 (32%) of the 38 purchases, totaling \$154,400, without an approved requisition or without all of the required approvals. For three (8%) purchases, totaling approximately \$4,700, the Assessor's only created requisitions and purchase orders after the services were received and invoiced. Lastly, seven (18%) requisitions, totaling \$122,300, did not include sufficient information for Procurement to complete the purchases without following up with the requestor.
- Prepayments ISD policy states that prepayments should only be made when it cannot be avoided (e.g., when a vendor requires prepayment). Prepayments must be approved by ISD, unless they are normal and customary (e.g., memberships, subscriptions, etc.). We noted that the Assessor's prepaid a vendor \$8,000 for printing related services, without ISD's approval.
- Payment Timeliness CFM 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. The Assessor's paid eight (18%) of 44 invoices reviewed an average of 21 days late. For one late payment, the Assessor's lost an available \$216 discount.
- Invoice Processing Departments are required to mark invoices "paid" to
  prevent duplicate payments. Although we did not find any duplicate payments,
  the Assessor's did not mark 12 (27%) of 44 invoices reviewed "paid".

#### Recommendations

#### Assessor's management:

 Obtain CEO approval for purchases of non-essential services and supplies.

- Ensure staff only order goods and services after receiving properly approved requisitions and purchase orders, and ensure that all requisitions include sufficient detail.
- 14. Require staff to obtain ISD approval for prepayments that are not normal or customary.
- 15. Ensure vendors are paid within 30 days of receiving the invoice.
- 16. Ensure invoices are marked "paid" to prevent reuse.

#### eCAPS Security Access

The eCAPS/eProcurement (System) allows authorized personnel to initiate and approve purchase and payment transactions online. County departments are required to periodically review employees' access (i.e., security roles), and authorization levels, to ensure that they are appropriate.

The Assessor's does not periodically review employees' System security roles, as required. We noted three Assessor's employees with inappropriate security roles. For example, one employee had the ability to add vendors/customers and approve payments. Another employee, an Account Clerk II, had a security role that should be limited to an Administrative Services Manager I or higher. The third employee's access was not deleted after he transferred to a different unit in October 2010.

#### Recommendation

17. Assessor's management review employees' eCAPS/eProcurement access to ensure that employees have appropriate access/security roles.

#### Annual Physical Inventory

CFM Section 5.3.1 requires County departments to have staff with no other supply, procurement, or warehouse responsibilities conduct annual physical inventories of their supply inventories. The Assessor's had warehouse staff conduct the annual physical inventory.

#### Recommendation

 Assessor's management ensure that staff with no other supply, procurement, or warehouse responsibilities complete the annual physical inventory.

## **Expenditure Accounting**

## Commitment/Encumbrances

County departments establish commitment encumbrances (commitments) to reserve budgeted funds for goods and services that are ordered, but not received by the end of the fiscal year.

The Assessor's had 43 commitments at the beginning of FY 2011-12, totaling approximately \$1.7 million. We reviewed 12 commitments, totaling \$859,200, and noted that the Assessor's did not need six (50%) of them, totaling \$212,800. Two commitments, totaling \$167,200 were not needed because the Assessor's did not order the goods/services until the following fiscal year. And four, totaling \$44,800, which had been carried over from FY 2010-11, should have been cancelled because the Assessor's had already received and paid for the goods/services in the previous year.

## Recommendation

 Assessor's management ensure that commitments are only established when good/services are ordered, but not received by the end of the fiscal year, and encumbrances/commitments are cancelled when no longer needed.

## Accounts Payable

Departments establish accounts payable for goods/services that are received, but not paid for, by the end of the fiscal year. Accounts payable ensure that prior year expenses are paid with prior-year appropriations, and help ensure accurate budgetary results.

The Assessor's established 21 accounts payable for FY 2010-11, totaling approximately \$61,600. We reviewed ten payables, totaling \$46,800, and noted that eight (80%) accruals, totaling \$35,752, should not have been established, because the Assessor's had already paid or returned/canceled the goods/services in the prior year.

### Recommendation

 Assessor's management ensure that accounts payable are only established when goods/services are received, but not paid for or returned, by end of the fiscal year.

## Cash Handling

The Assessor's sells property and parcel related information (e.g., property description and assessment values, parcel boundary maps and changes, sales lists, etc.) to the public, developers, cities, and other agencies, etc. The Assessor's receives cash and

checks, both in person at public service counters, and through the mail for this information. During FY 2011-12, the Assessor's property information sales totaled approximately \$217,000.

## **Property Data Sales Unit - Collections**

The Assessor's Property Data Sales unit (PDS) sells large volume data (e.g., parcel related information on DVD and CDs, etc.) to developers, cities, and sanitation districts, etc. During FY 2011-12, PDS sales totaled approximately \$186,000, or 86% of the Assessor's total information sales.

For over-the-counter sales, PDS collects cash and checks, and sends the collections to the Assessor's Accounting unit for deposit. Clients who make frequent purchases (e.g., developers, cities, etc.) may establish an account with the Assessor's, which allows them to make purchases and be billed. These clients mail their payments to a lockbox. We reviewed PDS' internal controls over cash collections and a sample of sales transactions, and noted the following:

- The Assessor's did not reconcile PDS collections to deposits to ensure that all collections are deposited. CFM Section 1.3.3.1 requires an individual independent of the cash receipting or depositing functions to reconcile the receipts to the deposit slips, within five days after receipts are deposited, to verify that all collections are properly accounted for and deposited. Without this reconciliation, it would be difficult to detect if any funds are missing. We reviewed PDS' collections and deposits for one month, and did not find any discrepancies. However, the Assessor's needs to complete this reconciliation, within five days of depositing collections, as required.
- When PDS transfers collections to the Accounting unit, they did not get a receipt for the funds, as required by CFM Section 1.3.3.1.
- PDS did not have a change fund, and had an employee use approximately \$148
  of his own money to make change. The Assessor's should immediately stop
  having employees use their own money to make change, and establish a change
  fund (i.e., revolving fund) for PDS, in accordance with CFM requirements.
- PDS sells property data on CDs and DVDs, but did not reconcile the CD and DVD inventory to the sales records. To ensure that all sales are properly accounted for, the Assessor's should have someone independent of sales or collections reconcile the beginning and ending inventory of CDs and DVDs to sales.
- PDS did not immediately endorse checks received, as required by CFM 1.3.4.
   We noted that the Accounting unit endorsed the checks on a weekly basis.

## Recommendations

## Assessor's management:

- Require an individual independent of the cash receipting or depositing functions to reconcile collections to deposits, within five days after the receipts are deposited.
- 22. Ensure that staff document transfers of collections by requiring transferring and receiving employees to sign for the funds, attesting that the amount transferred is correct.
- 23. Establish a change fund for PDS, and ensure that employees do not use their own money to make change.
- 24. Require staff independent of sales or collections to reconcile the beginning and ending balance of CD and DVD inventory to sales.
- 25. Require PDS staff to endorse checks immediately upon receipt.

## **Account Handling**

As noted earlier, the Assessor's allows buyers to purchase property data on account. To establish an account, customers must complete an application, provide a security deposit, and sign an agreement. The agreement specifies the payment due date and late fees. As of August 2012, the Assessor had 331 accounts. We reviewed these accounts, and noted the following:

- The Assessor did not always bill customers timely, and did not enforce their 30-day payment policy or late fees. We reviewed 15 transactions, and noted that the Assessor billed the customers an average of 73 days after the transaction date. Three (20%) of the customers paid an average of 23 days late, but the Assessor's did not charge them late fees, totaling \$127.
- The Assessor did not always establish accounts receivables timely. Specifically, we reviewed 18 accounts receivable that were established in FY 2011-12, and noted that 13 (72%) receivables, totaling \$5,985, should have been established in the prior fiscal year when the goods/services were provided. As a result, revenue from these sales were not recognized in the correct fiscal year. The Assessor's needs to ensure that they establish accounts receivable in the fiscal year services are provided.
- The Assessor's allowed a customer, who had a past due balance of \$302 from June 2011, to make purchases on account in October and November 2011, totaling \$1,265. The Assessor's ultimately had to refer the uncollected balance of \$1,567 to the Treasurer and Tax Collector for collection in June 2012. The

Accounting Unit should inform PDS of delinquent/unpaid accounts to ensure that customers with past due amounts cannot make purchases.

 The Assessor's did not have follow-up procedures for delinquent accounts, as required by CFM Section 10.1.3. Some of the issues noted above may have been prevented if the Assessor's had follow-up procedures.

## Recommendations

## Assessor's management:

- 26. Ensure staff bill customers timely, enforce the 30-day payment policy, follow up on late payments, and assess late fees, as appropriate.
- 27. Ensure Accounting staff establish accounts receivable in the fiscal year services are provided.
- 28. Require Accounting staff to inform PDS of unpaid accounts to ensure customers with past-due amounts cannot continue to make purchases.
- 29. Develop follow-up procedures for delinquent accounts.

## Separation of Duties

We noted that one employee received payments, updated account records, and followed up on delinquent accounts. In addition, as noted earlier, the Assessor's did not reconcile collections to deposits. To minimize the risk of fraud, these functions must be separated, as required by CFM Section 10.1.3.

### Recommendation

 Assessor's management ensure the functions of receiving payments, updating accounts, and following up on delinquent accounts are appropriately separated.

### Deposits

CFM Section 1.3.7.1 requires departments to deposit \$500 or more in cash and checks by the close of each business day. We inventoried a safe, and noted that the Assessor's had \$17,467 in cash and checks, which had been there for at least five days. Assessor staff indicated that they make weekly deposits, which is not in compliance with the CFM.

### Recommendation

 Assessor's management ensure collections of \$500 or more are deposited daily.

## Safe Inventories

CFM Section 1.1.4 requires departments to restrict access to safes to as few authorized individuals as necessary. The CFM also requires departments to inventory safes every six months, and purge non-negotiable items.

We reviewed a safe in the Accounting unit, used to store daily collections, check stock, petty cash, etc., and noted that all six Accounting unit staff had access to the safe, even though only four employees needed access. In addition, we noted that the staff kept non-negotiable items, such as floppy disks with outdated Assessor's policies and schedules, etc., in the safe. Assessor's staff also could not tell us if this safe had ever been inventoried.

## Recommendation

32. Assessor's management ensure that access to safes is limited to as few authorized individuals as necessary, safe contents are inventoried every six months, and non-negotiable items are purged, as appropriate.

### **County Credit Cards**

### Voyager (Gasoline) Cards

Some County employees use Voyager cards when County fueling sites are not geographically or readily accessible. The Assessor's has six Voyager cards.

We reviewed the Assessor's Voyager card transactions, and noted the Assessor's did not take or cancel the elected Assessor's (Mr. John Noguez) Voyager (gasoline) card when he went on leave of absence on June 1, 2012. Mr. Noguez continued to use the card for three weeks, making six purchases, totaling \$383, after he started his leave. In addition, Mr. Noguez used the Voyager card to make five purchases in January and May 2012, totaling \$198, and it is unclear whether these purchases, including two in Las Vegas, were business-related. We will work with Assessor's management and County Counsel to determine if the Assessor's should pursue reimbursement for any of these transactions.

The Assessor's also did not have receipts for nine (18%) of Mr. Noguez' 50 Voyager card purchases, totaling \$568.

The Assessor's other five Voyager cards have not been used since 2004. The Assessor's indicated that the five cards are kept for emergency purposes. The Assessor's should reevaluate the need for each Voyager card, and cancel unused cards, as appropriate.

## Recommendations

## Assessor's management:

- 33. Ensure Voyager cards are collected or canceled timely when employees are on a leave of absence.
- 34. Monitor Voyager card transactions to ensure that the cards are only used for business purposes.
- 35. Ensure that all Voyager card purchases are supported with receipts.
- 36. Reevaluate the need for each Voyager card and cancel unused cards, as appropriate.

## American Express

County departments can issue American Express corporate (AMEX) cards to employees who travel frequently, to avoid giving travel advances or having employees incur out-of-pocket expenses. When employees use their AMEX card, they are required to submit an expense claim, and pay off the card balance with the funds received from the claim. The Assessor's had one AMEX card, assigned to Mr. Noguez.

We reviewed the Assessor's AMEX card transactions from February 2011 to February 2012, and noted that all transactions appeared to be business-related. However, we noted that on three separate occasions, Mr. Noguez forwarded the AMEX statements to the Accounting unit to be processed for payment to AMEX, and also submitted expense claims for the same charges. The Accounting unit processed all of the requests, directly paying AMEX approximately \$1,141, and also paying Mr. Noguez \$1,141, resulting in duplicate payments. The Accounting unit discovered the error several months later, and recovered the overpayments from Mr. Noguez.

It should be noted that the Assessor's cancelled the AMEX card in April 2012. Assessor's staff indicated that they cancelled the card because Mr. Noguez no longer needed it. The recommendation below applies if the Assessor's issues AMEX cards in the future.

## Recommendation

 Assessor's management ensure the Accounting unit follows the American Express card reimbursement procedures to avoid duplicate payments.

## Mileage Reimbursement

The County Code allows reimbursement to employees for mileage and parking fees when they drive their own cars on County business. The Assessor's has over 850 employees who drive their personal vehicles on County business, and Assessor's employees received a total of approximately \$996,000 in mileage reimbursements during FY 2011-12.

## Mileage Claim Accuracy

CFM Section 13.12.7 requires employees to submit mileage claims with the date, time, location/address and city, odometer readings, miles traveled, and purpose for each trip. The claims must be reviewed/approved by supervisors who can attest to their accuracy, and be reviewed by mileage clerks before they are processed for payment. Employees cannot claim mileage on days they do not work, or claim excessive mileage. We reviewed a sample of 15 mileage claims, interviewed Assessor's staff, and noted the following:

- Over-claimed Mileage We compared the mileage on the 15 claims to the mileage computed by internet applications (i.e., MapQuest, Google Maps), and noted that 11 (73%) claims reported more miles than the internet applications, resulting in \$809 in total possible overpayments, or 8.5% of the total amounts claimed, \$9,566. For example, one employee claimed 16 miles from one work location to another when the longest computed route was nine miles, and the claim did not include any justification for the additional miles.
- Mileage Claimed for Days Not Worked On one (7%) of the 15 claims, an employee claimed and was reimbursed for mileage on a day when his timecard indicated he did not work. While we did not find other improper mileage payments on the 15 claims reviewed, we noted that 38 (26%) of 144 entries in the Assessor's log of mileage claims returned to employees for corrections (Returned Mileage Log) were for mileage claimed on days the employees did not work. Assessor's supervisors need to do a better job of reviewing employees' mileage claims to ensure that only accurate claims are submitted for reimbursement, and counsel employees about submitting false/inaccurate claims.
- Incomplete Mileage Claims Eight (53%) claims were missing some required information (e.g., valid/complete addresses, times/dates, trip purpose, etc.). We were unable to verify a total of 434 miles (\$222) because the claims did not have valid or complete addresses.

Incorrect Headquarters Address – For two (13%) claims, employees entered incorrect headquarters on their mileage claims. For one employee, this resulted in an overpayment of \$66, or 126 miles. The second employee used the address of another County department's office as her headquarters on the mileage claim, but it did not result in an over/under payment. Since mileage claims are paid based on the headquarters shown on the claims, the Assessor's should ensure that employees report accurate headquarters on their claims.

## Recommendations

## Assessor's management:

- 38. Reinstruct employees on mileage claim rules, and the requirement to complete their claims accurately, and monitor for compliance.
- Reemphasize to employees that they should only claim mileage on days they work, and that submitting inaccurate claims may result in discipline.
- 40. Instruct supervisors and mileage clerks to reject inaccurate or incomplete claims.
- 41. Ensure employees include correct headquarters on their mileage claims.

## Mileage Claim Processing

We interviewed five supervisors from various Assessor's offices, and all five indicated they routinely approve employees' mileage claims without thoroughly reviewing them. In addition, four of the five supervisors indicated they sign mileage claims for employees they do not supervise, when the employees' supervisors are not available. This may explain the number of claims returned for correction, as noted earlier. All mileage claims should be reviewed/approved by supervisors who can verify the accuracy of the claims.

We also noted that supervisors return approved mileage claims to employees, so the employees can submit the claims for processing. While we did not note any inappropriate changes, returning approved claims to the employees could result in approved claims being altered before they are submitted for processing, and improper payments.

## Recommendations

## Assessor's management:

- 42. Require mileage claims to be reviewed and approved by supervisors who can attest to the accuracy of mileage claimed.
- 43. Ensure supervisors do not return approved mileage claims to employees.

## Mileage Re-Certification

CFM Section 13.12.2 requires departments to review all mileage permittees annually to verify if they still need permittee status. Assessor's management indicated that the they conduct this review annually by requiring employees to complete the 'Mileage Reimbursement Classification' form, and have it approved by their supervisors, to verify their continued need for permittee status. They also indicated that, if a mileage permittee does not submit the form, the employee's permittee status is removed from CWTAPPS/eHR, until the form is received. However, we noted that four (40%) of ten employees reviewed did not submit the required form, but their permittee status was not removed.

## Recommendation

44. Assessor's management review all employees' mileage permittee status annually, and ensure that permittee status is removed from CWTAPPS/eHR, if employees do not verify their continued need.

### **Driver License Monitoring**

CFM Section 13.12.10 requires departments to review the Driver License Expiration report every month to verify that all employees driving on County business have a current driver's license. Assessor's staff indicated they do not review this report. We noted two instances where the employees were paid for mileage when CWTAPPS indicated they had expired licenses. To protect the County from liability for employees driving without a current driver's license, the Assessor's should review this report monthly.

#### Recommendation

45. Assessor's management ensure that mileage clerks review the Driver License Expiration report monthly, and that employees with an expired driver's license do not drive on County business or claim mileage.

## **Travel Expenses**

Assessor's employees sometimes travel for County business, such as out-of-state business property audits, conferences, etc. During FY 2011-12, the Assessor's incurred approximately \$242,000 in travel expenses.

### Travel Requests/Advances

We interviewed Assessor's staff, reviewed travel logs, and a sample of 15 travel expense claims, which included nine travel advances, and noted the following:

- Two (13%) employees attended a conference without written approval. Although the conference appeared job-related, CFM Section 13.2.2 requires employees to obtain written approval before traveling on County business.
- The Assessor's does not have a standardized travel authorization form. As a result, some completed travel authorization forms did not include all required information (e.g., employee number, purpose of trip, etc.).
- For all nine travel advances, the Assessor's advanced 100% of the estimated travel expenses to employees. CFM Section 13.9.0 indicates that travel advances should be limited to no more than 75% of the estimated travel expenses. We noted that five (56%) of the nine employees reviewed spent less than the amount advanced. In all five instances, the employees returned the unused advances to the Assessor's.

## Recommendations

### Assessor's management:

- 46. Require employees to obtain written approval before traveling on County business.
- 47. Standardize the travel authorization form to include all required information.
- 48. Ensure that no more than 75% of estimated travel expenses are advanced.

## Reconciliation of Travel Billing Statements

Each month, the A-C's Disbursements Division sends departments a travel billing statement that lists all travel charges (e.g., airfare, car rental, etc.). Departments are required to reconcile this statement to their approved travel requests to ensure they are only billed for approved employee travel. However, the Assessor's did not complete this reconciliation. As a result, we noted an instance where the Assessor's was charged

\$122 for car rental expenses incurred by another department's employee. This error would have been detected if staff reconciled travel billing statements.

## Recommendation

49. Assessor's management require staff to reconcile travel billing statements to approved travel requests.

## **Cellular Phones**

The Assessor's has 30 cellular (cell) phones and seven broadband cards, and spends approximately \$20,000 a year on these services. We evaluated the Assessor's controls over cell phones and broadband cards, reviewed billing statements and inventory records, and noted the following:

- CFM Section 4.7.2 indicates that departments should reevaluate individual cell phone assignments annually to ensure they are needed. The Assessor's did not reevaluate individual cell phone assignments once they assigned the cell phones to employees. We noted that ten (33%) of 30 cell phones were used for less than ten minutes over a two-year period, resulting in approximately \$2,900 for unnecessary service fees. The Assessor's indicated that these cell phones were assigned to employees for "emergency" use. However, we interviewed two of the ten employees, and both indicated that they do not carry their County cell phones, but keep them in their office drawer. Given the minimal usage, it may be more cost effective to have the employees use their personal cell phones, if needed, and reimburse them for usage.
- The Assessor's did not always cancel cell phone service timely when employees leave the Assessor's. We noted that one employee left the Assessor's on January 4, 2012, but kept his County cell phone and continued to use it until the Assessor's cancelled it on February 27, 2012. The employee incurred \$103 in service/usage charges, and the Assessor's subsequently recovered \$52 from the employee. Another employee retired in January 2012, and turned in his cell phone, but the Assessor's did not cancel the service until August 2012, resulting in \$103 in service fees for this unused phone.
- The Assessor's did not maintain up-to-date cell phone inventory records, as required by the CFM. We noted 13 incorrect/incomplete cell phone inventory items. For example, the inventory records did not include three cell phones that had been active since July 2001. As a result, we were unable to determine when these phones were assigned to the employees. Assessor's staff updated their inventory records after we brought the issue to their attention.

- The Assessor's did not have adequate segregation of duties related to cell phones. One employee ordered, received, and distributed cell phones, and reviewed monthly billing statements. This employee was also responsible for submitting forms to Procurement to update the cell phone inventory. We also noted that the employee did not always notify Procurement when phones/accessories were received. This may have contributed to the inaccurate cell phone inventory records.
- Assessor's staff purchased cell phones and related equipment without approval.
   For example, an employee received an upgraded cell phone, at a cost of \$257, without management approval. We also noted that cell phone accessories (e.g., chargers) were purchased without approval.

## Recommendations

## Assessor's management:

- 50. Ensure cell phone assignments are reviewed annually, and unused phones are deactivated.
- Consider canceling services for rarely used phones, and reimbursing employees for infrequent/intermittent use of their personal cell phones.
- 52. Ensure cell phones are returned and service is cancelled timely when employees leave the Department.
- 53. Maintain an accurate inventory of cell phones, including up-to-date records of assigned users.
- 54. Ensure the functions of ordering, receiving, and distributing cell phones, and reviewing monthly billing statements are adequately separated.
- 55. Consider having Procurement staff (who are not responsible for ordering cell phones) receive cell phones to ensure accurate and timely updates to the cell phone inventory records.
- 56. Ensure cell phone related purchases are properly approved.

## **Broadband Cards**

We reviewed the Assessor's controls over their broadband cards, and noted that the Assessor's paid \$633 for one broadband card that was not used from May 2011 to June 2012. We also noted that the Assessor's inventory records did not include one broadband card that was assigned to an employee. The Assessor's subsequently

assigned an asset tag number and updated their inventory records, after we brought it to their attention.

## Recommendation

57. Assessor's management cancel unused broadband cards, and maintain accurate inventory records.

## **Trust Funds**

The Assessor's has four trust funds, totaling \$8.44 million, as of June 30, 2012. Approximately \$8.4 million (99.5%) of the total trust fund balance is in the Assessor's Property Tax Administration Trust Fund (S4G), used to maintain the State Property Tax Administration Program grant. The remaining three trust funds, totaling \$40,000, are used to hold security deposits, temporarily account for accounts receivable collections and revenue, etc.

## Trust Fund Documentation and Records

CFM Section 2.1.3 requires departments to keep documentation indicating the purpose and authority for each trust fund. We noted that the Assessor's did not have this documentation for any of its trust funds. The Assessor's indicated that the documentation may have been misplaced since the trust funds were established years ago (e.g., in 1990).

In addition, CFM Section 2.3.0 requires departments to maintain a ledger and detailed subsidiary records for each trust account, and to perform monthly reconciliations to the County's official accounting records (eCAPS). The Assessor's did not have ledgers for their trust funds, except for the SG4 trust fund, and they did not perform monthly reconciliations for any of the trust funds. As a result, we noted that the Assessor's could not identify the source of \$18,000 in one trust fund, a sweep account – TU3. We noted that the \$18,000 had been in the trust fund for at least five years.

## Recommendations

## Assessor's management:

- 58. Maintain documentation indicating the purpose and authority for each trust fund.
- Maintain detailed ledgers for all trust funds, and reconcile the records to eCAPS monthly.
- 60. Determine the source of the \$18,000 balance in the TU3 trust fund, and appropriately disposition the funds, as necessary.

## **Revenue Transfers**

The Assessor's uses trust funds to temporarily deposit collections until the Accounting unit can identify the appropriate revenue accounts. However, the Accounting unit did not always transfer trust fund balances to revenue accounts timely. We reviewed 26 revenue transfers, totaling \$10,422, and noted that 24 (92%) transfers, totaling \$4,456, were completed an average of 111 days after the Assessor's earned the revenue. It appears these transfers were delayed because the Accounting unit did not prepare journal vouchers timely.

## Recommendation

61. Assessor's management ensure Accounting unit staff transfer revenue from trust funds timely.

### **Revolving Funds**

A revolving fund is a predetermined amount of money maintained on a fixed (imprest) basis to be used for County business. Departments establish revolving funds to make change, to make small (petty cash) purchases, etc. The Assessor's has one revolving fund, totaling \$5,340, consisting of a \$4,860 checking account that is used to purchase goods and services; and smaller petty cash and change funds assigned to the Assessor's District offices. We reviewed the Assessor's revolving fund transactions and controls, and noted the following:

- For five (83%) of six revolving fund purchases reviewed, totaling \$2,078, the Assessor's made non-emergency purchases, that did not require prepayment. CFM Section 4.6.4 indicates that, for purchases between \$25 and \$1,000, revolving funds may be used when emergencies exist, when prepayment is required, etc. The Assessor's should have purchased these items through the regular procurement process, and should have paid for them using the online vendor payment system (eCAPS). In addition, we noted that an individual with knowledge of the procurement process was not always involved with revolving fund purchases, as required.
- The Assessor's made 18 purchases, averaging \$275 per month, using the revolving fund checking account, but the Assessor's only requested reimbursement/replenishment of the account once during the Fiscal Year. CFM Section 1.6.6 indicates that departments should reimburse/replenish revolving funds monthly. Not reimbursing/replenishing the revolving fund on a monthly basis may be an indication that the fund assignment is too large for the department's needs. The Assessor's should reevaluate the amount of the revolving fund assignment, and return any excess funds to the A-C's Accounting Division.

- The Assessor's used its revolving fund checking account to deposit and issue payments for charitable giving campaign activities/contributions (e.g., March of Dimes, etc.). The Assessor's deposited a total \$14,700 of charitable giving contributions into the account, and approximately \$1,160 in contributions are still in the account. The Assessor's should work with the CEO's Office of Workplace Programs to transfer the remaining charitable giving funds, and obtain guidance/training on how to properly deposit and account for charitable giving funds.
- The Assessor did not conduct surprise cash counts of revolving funds, as required by CFM Section 1.6.3.
- The Assessor did not follow up on uncashed revolving fund checks timely. For example, the Assessor's June 2012 reconciliation included seven checks, totaling \$160, which have been outstanding since at least January 2007.
- The Assessor's revolving fund checks did not indicate "Amounts over \$500 require two signatures", as required by CFM Section 4.6.4.

## Recommendations

## Assessor's management:

- 62. Ensure that revolving fund purchases, between \$25 and \$1,000, are limited to emergency purchases, when prepayment is required, etc.
- 63. Ensure that an individual with procurement expertise is involved in revolving fund purchases.
- 64. Reevaluate the Department's revolving fund assignment to determine if the amount should be reduced, and return any excess funds to the Auditor-Controller's Accounting Division.
- 65. Work with the CEO's Office of Workplace Programs to transfer the remaining charitable giving funds, and obtain guidance/training on how to properly deposit and account for charitable giving funds.
- Require staff to conduct periodic surprise cash counts of revolving funds.
- 67. Ensure staff follow up on uncashed revolving fund checks and cancel them timely, as necessary.
- 68. Ensure the revolving fund checks indicate "Amounts over \$500 require two signatures".

## Internal Control Certification Program

The A-C developed the Internal Control Certification Program (ICCP) to assist County Departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas, and certify that proper controls are in place, or document corrective action to address internal control deficiencies or weaknesses.

Many of the deficiencies noted in this report were not identified when Assessor's staff completed the ICCP for FY 2010-11 and 2011-12. Assessor's management should require staff to accurately complete the ICCP questionnaires, identify all internal control weaknesses, and develop an improvement plan to address each control weakness. Assessor's management should also review completed ICCP questionnaires and improvement plans, and monitor to ensure the timely implementation of corrective action.

## Recommendations

## Assessor's management:

- 69. Require staff to accurately complete the Internal Control Certification Program questionnaires, identify all internal control weaknesses, and develop an improvement plan to address each control weakness.
- 70. Review completed Internal Control Certification Program questionnaires and improvement plans, and monitor to ensure the timely implementation of corrective action.



## OFFICE OF THE ASSESSOR COUNTY OF LOS ANGELES

500 WEST TEMPLE STREET, ROOM 320 LOS ANGELES, CALIFORNIA 90012-2770 (213) 974-3101 assessor.lacounty.gov

#### SANTOS H. KREIMANN CHIEF DEPUTY ASSESSOR

December 3, 2012

TO:

Wendy L. Watanabe

Auditor-Controller

FROM:

Santos H. Kreimann

Chief Deputy Assessor

SUBJECT:

COMPREHENSIVE FISCAL REVIEW

(BOARD AGENDA ITEM 36-A, APRIL 10, 2012)

Attached is the Assessor's response to the recommendations contained in the Comprehensive Fiscal Review conducted by your office. Please see the attached document which reflects our responses to these recommendations.

If you have any questions or need additional information, please contact George Renkei, Assistant Assessor of Administration at (213) 974-3101.

SHK:GR:tt

Attachment

 George Renkei, Assistant Assessor, Administration Sharon Moller, Assistant Assessor, Operations

#### PAYROLL/PERSONNEL

#### Recommendations:

 Assessor management discontinue the practice of changing employee timecards to reduce vacation payouts, and ensure that employee timecards reflect actual hours worked.

#### Department Response:

AGREE

Three reminder memos are sent to Division Managers and employees with excess vacation throughout the calendar year. An additional reminder will be sent out this year in December to remind employees and supervisors of the proper rules of excess vacation and the importance of recording time accurately and timely.

HR operations managers will also begin conducting roundtable meetings with supervisors and managers to discuss this issue as well as others.

 Assessor management discontinue allowing employees to work unrecorded overtime, and ensure that employees' overtime is appropriately approved by management and reported.

#### Department Response:

AGREE

On March 8, 2011 a memo was sent to all supervisors and managers on FLSA rules. By the end of the 2011/12 Fiscal Year, all departmental managers and supervisors had attended the instructor-led FLSA trainings offered by the Department of Human Resources.

A reminder memo will be sent to all supervisors and managers to re-enforce the FLSA rules and the importance of obtaining appropriate approvals for overtime as well as recording time accurately and timely.

In addition, HR operations managers will begin conducting roundtable meetings with supervisors and managers to discuss this issue as well as others.

 Assessor management to correct the inaccurate timecards, and adjust the employees' leave balances accordingly.

#### Department Response:

AGREE

One of the employee's timesheet was corrected on September 23, 2012. The other employee timesheet variance form is pending and the correction will be processed as soon as it's received.

 Assessor management to remind employees of the requirement to accurately report their time, and ensure that supervisors review employee timecards for accuracy before they are approved.

#### Department Response:

On November 15, 2012 the department sent out a memo reminder to all Division Chiefs reinforcing the review of benefit time and the requirement of employees and supervisors to accurately report time.

Periodically, a memo will be sent to all employees reiterating the importance of recording time accurately and timely.

HR operations managers will begin conducting roundtable meetings with supervisors and managers to discuss this issue as well as others.

 Assessor management ensure that Payroll staff generate eCAPS Time Collection Exception Reports for all pay locations, and follow up on all exceptions, as required.

#### Department Response:

A log was created on June 1, 2012 to ensure all eCAPS Time Collection Exception Reports are printed and reviewed for all pay locations. The Payroll supervisor periodically reviews the log and the Exception Reports to ensure compliance.

#### Recommendation 9 from the March 21, 2011 Report

Assessor management ensure out-of-class bonuses are only used temporarily until employees are appointed to a new position or returned to their previous position.

#### Department Response:

AGREE

AGREE

The department has put in place a procedure ensuring that the out-of-class bonus is terminated when an employee is either not on the eligibility list or not reachable on the eligibility list.

#### Recommendation 12 from March 21, 2011 Report

Assessor management ensure staff reviews and compares the Temporary Disability Payments Report to CWTAPPS and corrects/resolves incorrect payments.

## Department Response:

AGREE

The department has been working with the worker's compensation's third party administrator in order to correct/resolve the incorrect payments made to one employee.

#### Recommendation 16 from March 21, 2011 Report

Assessor management restrict access to personnel and payroll files to appropriate staff and ensure employees do not have access to their own files.

#### Department Response:

AGREE

Due to space limitation, the department was not able to comply with this at the time of review. Remodeling work in HR has begun and, once completed, we will have the space needed to separate the personnel and payroll files.

### Recommendation 20 from the March 21, 2011 Report

Assessor management ensure unannounced payoffs are conducted at all pay locations at least annually.

Department Response:

AGREE

The department will draft procedures to ensure that staff perform the payoff audits in accordance with CFM guidelines.

Additionally, an audit schedule will be prepared annually listing all of the pay locations and proposed dates to ensure that no pay location is left out.

#### Recommendation 21 from the March 21, 2011 Report

Assessor management ensure staff independent of the payroll/personnel functions verify written approval for each supplemental warrant on the CWPAY Supplemental Departmental Warrant Register.

Department Response:

AGREE

The department now has a procedure in place to ensure that written approval exists for each supplemental warrant and has identified where this function will be assigned/transferred.

## Recommendation 22 from the March 21, 2011 Report

Assessor management ensure payroll staff use CWTAPPS reports to monitor the Department's payroll operations and retain the reports at least five years.

Department Response:

AGREE

A log will be created to ensure all eHR Exception Reports are printed and reviewed. In November 2012 payroll staff members were instructed to begin reviewing the exception reports generated from April 2012 to present. Going forward, the payroll supervisor will review the log and the eHR Exception Reports to monitor and ensure compliance each pay period.

 Assessor management implement all recommendations from the 2011 Payroll/Personnel review.

Department Response:

AGREE

As discussed above, the department has either implemented, or is in the process implementing, all of the recommendations from the 2011 Payroll/Personnel review.

#### **PROCUREMENT**

#### Recommendations:

 Ensure that Procurement staff does not split purchases to circumvent the Department's delegated purchasing authority of the quote requirement.

Department Response:

- Procurement staff members were briefed on ISD's purchasing policies and procedures in September 2012.
- · The department will create and distribute a job-specific policy and procedures manual for each procurement employee.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- Ensure Procurement staff review vendor agreements, make purchases from the appropriate 8. sources (i.e., agreement or non-agreement vendors), and send non-agreement purchases over \$5,000 to ISD for processing

AGREE

AGREE

#### Department Response:

- Procurement staff members were briefed on ISD's purchasing policies and procedures in September 2012.
- · The department will create and distribute a job-specific policy and procedures manual for each procurement employee.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- 9. Require staff to verify agreement prices.

#### Department Response:

- Procurement staff members were briefed on ISD's purchasing policies and procedures in September 2012.
- · The department will create and distribute a job-specific policy and procedures manual for each procurement and budget employee.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- Ensure Procurement staff members obtain price quotes as required by County purchasing 10. policies, and only make sole source purchases that meet County criteria.

#### Department Response:

- In September 2012 Procurement staff members were briefed on ISD's purchasing policies and procedures.
- · The department will develop a Sole Source Purchasing Policy for purchases within the department's purchasing authority.
- · The department will create and distribute a job-specific policy and procedures manual for each procurement and budget employee.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.

11. Ensure all purchases are approved by appropriate level managers.

#### Department Response:

AGREE

- A memorandum to procurement and budget staff members will be distributed reminding them of proper signature requirements.
- CFM Policy and Procedure #4.4.2.1 will be distributed to all procurement and budget staff members
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- 12. Obtain CEO approval for purchases of non-essential services and supplies.

#### Department Response:

AGREE

- A memorandum to procurement and budget staff members regarding the Freeze on Non-Essential Services, Supplies and Equipment will be distributed.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- Ensure staff only order goods and services after receiving properly approved requisitions and purchase orders, and ensure that all requisitions include sufficient detail.

#### Department Response:

AGREE

- A memorandum to procurement and budget staff members reminding them of purchasing policies and procedures will be distributed.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- 14. Require staff to obtain ISD approval for prepayments that are not normal or customary.

#### Department Response:

AGREE

- A memorandum to procurement and budget staff members reminding them of ISD's purchasing policy relating to prepayments to vendors will be distributed.
- Procurement policies and procedures will be reviewed annually with all procurement and budget staff members.
- Ensure vendors are paid within 30 days of receiving the invoice.

#### Department Response:

AGREE

Additional staff will be required in order to implement this recommendation.

- The Department is the process of requesting additional staff through hiring and/or transfer.
- A memorandum to procurement and budget staff members reminding them of ISD's Purchasing policy relating to pre-payments to vendors will be distributed.
- Procurement and payment policies and procedures will be reviewed annually with all
  procurement and budget staff members.
- 16. Ensure invoices are marked "paid" to prevent reuse.

#### Department Response:

#### AGREE

- A memorandum to procurement and budget staff members reminding them of purchasing policies and procedures will be distributed.
- Procurement and payment policies and procedures will be reviewed annually with all
  procurement and budget staff members.
- Assessor management review employees' eCAPS/Procurement access to ensure that employees have appropriate access/security roles.

#### Department Response:

#### AGREE

- In November 2012 the department reviewed eCaps/Procurement access and made adjustments as needed.
- The department will review eCaps/Procurement for access/security roles annually.
- Assessor management ensure that staff with no other supply, procurement, or warehouse responsibilities complete the annual physical inventory.

### Department Response:

#### AGREE

- Additional staff will be required in order to implement this recommendation.
- The Department will cross-train existing staff or seek additional resources in order to implement this recommendation.

#### **EXPENDITURE ACCOUNTING**

#### Recommendations:

19. Assessor management ensure that commitments are only established when good/services are ordered, but not received by the end of the fiscal year, and encumbrances/commitments are cancelled when no longer needed.

#### Department Response:

#### AGREE

 A memorandum to procurement and budget staff members reminding them of CFM policies regarding encumbrances and commitments will be distributed.

- The department will create an internal policy to ensure that encumbrances and commitments are reviewed and cancelled when no longer needed.
- 20. Assessor management ensure that accounts payable are only established when goods/services are received, but not paid for or returned, by end of the fiscal year.

#### Department Response: AGREE

- . A memorandum to Directors, Chiefs and procurement and budget staff members reminding them of purchasing policies and procedures will be distributed.
- Procurement and payment policies and procedures will be reviewed annually with all procurement and budget staff members.

#### **CASH HANDLING**

#### Recommendations:

 Require an individual independent of the cash receipting or depositing functions to reconcile collections to deposits, within five days after the receipts are deposited.

#### Department Response:

- AGREE
- Additional staff will be required in order to implement this recommendation.
- The Department is in the process of requesting additional staff through hiring and/or transfers.
- 22. Ensure that staff document transfers of collections by requiring transferring and receiving employees to sign for the funds, attesting that the amount transferred is correct.

## Department Response:

- Accounts Receivable has developed a spreadsheet that lists all funds being transferred.
- A new form was created in September 2012 and is currently in use.
- Establish a change fund for PDS, and ensure that employees do not use their own money to make change.

#### Department Response:

#### AGREE

- · A change bag will be provided to PDS staff.
- The Department's Management Services staff will meet with ITD and establish written policies and procedures for this function.
- Require staff independent of sales of collections to reconcile the beginning and ending balance of CD and DVD inventory to sales.

Department Response:

AGREE

The Department's Management Services staff will meet with ITD to establish written policies and procedures for this function.

25. Require PDS staff to endorse checks immediately upon receipt.

Department Response:

AGREE

- The Department's Management Services will meet with ITD to establish written policies and procedures for this function.
- · ITD will be provided with an endorsement stamp.
- Ensure staff bill customers timely, enforce the 30-day payment policy, follow up on late payments, and assess late fees, as appropriate.

Department Response:

AGREE

- In consultation with the Accounts Receivables and ITD, Management Services will develop new written policies and procedures.
- · Policies and procedures will be reviewed annually with all appropriate staff members.
- 27. Ensure Accounting staff establish accounts receivable in the fiscal years services are provided.

Department Response:

AGREE

- This recommendation is consistent with existing policy. Management Services will issue a memo to staff reminding them of the proper procedures.
- · Policies and procedures will be reviewed annually with all appropriate staff members.
- 28. Require Accounting staff to inform PDS of unpaid accounts to ensure customers with past due amounts cannot continue to make purchases.

Department Response:

AGREE

The Department's Management Services staff will establish written policies and procedures for this function.

29. Develop follow-up procedures for delinquent accounts.

Department Response:

- The department will develop written policies that address follow-up procedures for delinquent accounts.
- Management Services will issue a memo to staff outlining the policy and procedures for delinquent accounts.
- Policies and procedures will be reviewed annually with all appropriate staff members.

30. Assessor management ensure the functions of receiving payments, updating accounts, and following up on delinquent accounts are appropriately separated.

#### Department Response: AG

- The department will develop written policies that address follow-up procedures for delinquent accounts.
- Management Services will issue a memo to staff outlining the policy and procedures for delinquent accounts.
- · Policies and procedures will be reviewed annually with all appropriate staff members.
- 31. Assessor management ensure collections of \$500 or more are deposited daily.

#### Department Response: AGREE

- Management Services is currently developing written procedures for this work function.
- Management Services will cross-train staff in order to provide backup.
- · A memorandum emphasizing this policy will be distributed.

AGREE

- Policies and procedures will be reviewed annually with all appropriate staff members.
- 32. Assessor management ensure that access to safes is limited to as few authorized individuals as necessary, safe contents are inventoried every six months, and non-negotiable items are purged, as appropriate.

#### Department Response:

- The combination to the safe was changed in September 2012 and access has been limited to Accounting Unit staff only.
- A list of those authorized to access the safe will be created and maintained.
- A written access policy will be developed and distributed.

#### **COUNTY CREDIT CARDS**

### Recommendations:

 Ensure Voyager cards are collected or cancelled timely when employees are on leave of absence.

#### Department Response:

- The Department's only active Voyager card was collected and cancelled on August 31, 2012.
- The Department will develop new guidelines, standards and a user agreement which will
  include notification and the return of any card should an employee take a leave of
  absence.

 Review Voyager card transactions to ensure that the cards are only used for business purposes.

#### Department Response:

AGREE

The department will develop new guidelines, standards and a user agreement that will clearly state that Voyager card transactions are to be used exclusively for County business purposes.

35. Ensure that all Voyager card purchases are supported with receipts.

#### Department Response:

AGREE

The department will develop new guidelines, standards and a user agreement that will clearly state that Voyager card transactions must be fully documented, including receipts.

36. Reevaluate the need for each Voyager card and cancel unused cards, as appropriate.

#### Department Response:

AGREE

As new guidelines, standards and a user agreement are developed, the ongoing need for each card will be evaluated.

 Assessor management ensure the Accounting unit follows the American Express card reimbursement procedures to avoid duplicate payments.

#### Department Response:

AGREE

- The department's only active American Express Card was cancelled on April 6, 2012.
- If a new card is assigned, the Accounting Unit will train the user on proper reimbursement procedures and monitor all transactions in accordance with reimbursement policy.

#### MILEAGE REIMBURSEMENT

#### Recommendations:

 Reinstruct employees on mileage claim rules, and the requirement to complete their claims accurately, and monitor for compliance.

### Department Response:

- The department will reissue the administrative memorandum on mileage claim reiterating the importance of timely and accurate submission of claims.
- HR operations managers will begin conducting roundtable meetings with supervisors and managers to discuss this issue as well as others.

 Reemphasize to employees that they should only claim mileage on days they work, and that submitting inaccurate claims may result in discipline.

#### Department Response:

- The department will reissue the administrative memorandum on mileage claim reiterating the importance of timely and accurate submission of claims.
- HR operations managers will initiate roundtable meetings with supervisors and managers to evaluate related issues.
- 40. Instruct supervisors and mileage clerks to reject inaccurate of incomplete claims.

AGREE

#### Department Response: AGREE

- The department currently has a procedure in place wherein mileage claims are checked by the mileage clerks and inaccurate or incomplete claims are returned.
- HR will re-issue the memorandum on mileage claims to mileage clerks and appropriate staff
- HR operations managers will begin conducting roundtable meetings with supervisors and managers to reiterate their responsibilities.
- 41. Ensure employees include correct headquarters on their mileage claims.

#### Department Response: AGREE

- The department will reissue the administrative memorandum on mileage claims reiterating the importance of timely and accurate submission of claims.
- Mileage clerks will continue to review the mileage claims and return inaccurate or incomplete.
- Require mileage claims to be reviewed and approved by supervisors who can attest to the accuracy of mileage claimed.

#### Department Response: AGREE

- HR operations managers will begin conducting roundtable meetings with supervisors and managers to reiterate their responsibilities.
- Supervisors will be instructed to verify accuracy of mileage claims.
- · A regular system if internal mileage claim audits will be established.
- 43. Ensure supervisors do not return approved mileage claims to employees.

#### Department Response: AGREE

- HR operations managers will begin conducting roundtable meetings with supervisors and managers to discuss this issue as well as others.
- · Supervisors will be instructed to comply with this policy.

44. Assessor management review all employees' mileage permittee status annually, and ensure that permittee status is removed from CWTAPPS/her, if employees do not verify their continued need.

### Department Response: AGREE

The department has an annual mileage re-certification procedure in place. To strengthen the process, the department implemented a new procedure using the eHR system. The system was set up so that mileage clerks are not able to process a mileage claim if the certification is not submitted or the certification information in the system does not reflect active permittee status.

45. Assessor management ensure that mileage clerks review the Driver License Expiration report monthly, and that employees with an expired driver license do not drive on County business or claim mileage.

#### Department Response: AGREE

The department began implementing a new process using the eHR system that, once complete, will not allow mileage clerks to process a mileage claim if the employee's license has expired.

#### TRAVEL EXPENSES

#### Recommendations:

46. Require employees to obtain written approval before traveling on County business.

#### Department Response:

AGREE

- The department will redistribute the administrative memorandum on reimbursement for travel expenses.
- Management Services will monitor travel expense claims and return those that do not include written pre-authorization.
- 47. Standardize the travel authorization form to include all required information.

#### Department Response: A

**AGREE** 

The department's travel authorization form will be revised to include additional travel information.

48. Ensure that no more than 75% of estimated travel expenses are advanced.

#### Department Response: AGREE

 The Department will comply with County Fiscal Manual Policy relative to advanced travel expenses.

- A memo will be distributed to staff reminding them of the County Fiscal Manual Policy relative to travel expenses.
- Assessor management require staff to reconcile travel billing statements to approved travel requests.

Department Response: AGREE

- The department's Travel Policy will be revised to require the submission of the travel itinerary. The Accounting Unit staff will use this information to reconcile the travel billings.
- In the interim, Travel Coordinators will inform employees that travel itineraries must be submitted to Accounting.

#### **CELLULAR PHONES**

#### Recommendations:

AGREE

50. Ensure cell phone assignments are reviewed annually, and unused phones are deactivated.

#### Department Response:

AGREE

Management Services is in the process of developing procedures that will include the annual review of phone assignments as well as the deactivation of unused phones.

 Consider canceling services for rarely used phones, and reimbursing employees for infrequent/intermittent use of their personal cell phones.

#### Department Response:

AGREE

Management Services will cancel services for rarely used phones and develop written policy and procedures to reimburse employees for the use of their personal cell phones.

 Ensure cell phones are returned and service is cancelled timely when employees leave the Department.

#### Department Response:

AGREE

In November 2012, the Department implemented a new procedure in which the HR Division provides Management Services with a copy of the Employee Release form as soon as it is received from divisions. This is in addition to the monthly Attrition Report already being provided to HR to advise them of any employees departing from County service. The Exit Interview form was also revised to ensure that various County issued properties including cell phones are returned.

Management Services is in the process of developing a user agreement which requires the employee to return the devise to the Division before leaving the Department. HR will provide the Employee Release forms to ensure phones are returned and service is cancelled prior to the employee leaving County service.

53. Maintain an accurate inventory of cell phones, including up-to-date records of assigned users.

#### Department Response: AGREE

- Beginning in June 2012, Management Services began reviewing and revising the inventory. The department's MobileFrame inventory tracking system's cellphone records are now up-to-date.
- Inventory record update forms are now required to be submitted to the Procurement Unit for proper and accurate recording of updates (new cell phones, user reassignment and release, relocation, disposal, etc.).
- The HR Division will notify both the Procurement Unit and the Personal Computing Device (PCD) Coordinator when staff, who are assigned cell phones, are leaving the Department. This will ensure that inventory records are updated and service is cancelled promptly. Please see response in Item #52.
- The above actions will be incorporated in the new policy and procedures being developed by Management Services.
- The accuracy of the inventory will be monitored regularly consistent with the new procedures.
- 54. Ensure the functions of ordering, receiving, and distributing cell phones, and reviewing monthly billing statements are adequately separated.

### Department Response: AGREE

- As an immediate response to the audit review, the PCD Coordinator is now required to
  fill out non-stock request forms for new cell phone orders. The requests are now
  approved by the Assistant Assessor. Orders are now shipped directly to the
  Procurement Unit, and not to the PCD Coordinator.
- The PCD Coordinator will continue sending all cell phone users their monthly billing statements for review and approval as part of his/her overall monthly billing review of orders and charges made.
- A Portable Computing Device (PCD) Policy will be developed and implemented. This
  new policy will specify the separation of duties and responsibilities regarding the
  ordering, receiving and distribution of cell phones, laptops, broadband cards, tablets
  and other portable computing devices within the Department.
- A new mobile device policy will be developed that will include the separation of ordering, receiving, and distribution responsibilities.
- Additional staff will be assigned to ensure appropriate separation of responsibilities.
- 55. Consider having Procurement staff (who are not responsible for ordering cell phones) receive cell phones to ensure accurate and timely updates to the cell phone inventory records.

#### Department Response:

AGREE

- The Procurement Unit now receives orders directly. Orders are no longer shipped to the PCD Coordinator who places the orders.
- A new mobile device policy will be developed that will include the separation of ordering, receiving, and distribution responsibilities.
- Additional staff will be assigned to ensure appropriate separation of responsibilities.
- 56. Ensure cell phone related purchases are properly approved.

#### Department Response:

AGREE

- Non-stock request forms are now required and approved by the Assistant Assessor for new cell phone orders.
- A new mobile device policy will be developed by April 30, 2013 that will include proper authorization standards.
- Assessor management cancel unused broadband cards, and maintain accurate inventory records.

#### Department Response:

**AGREE** 

- All unused broadband cards have been cancelled.
- All portable computing devices (PCDs) including cell phones, emergency phones, and broadband cards will be reviewed to determine need. An assessment and recommendation report will be submitted to the Assistant Assessor.
- Broadband cards that are built-in to laptops cannot be individually tracked in the MobileFrame inventory system. Rather, the laptops that have built-in cards are tagged in the system. After coordinating with the Information Technology (IT) Section, which provided the list of laptops with broadband cards, the inventory list is now up-to-date.
- As with cell phones, the HR Division will notify both the Procurement Unit and the Personal Computing Device (PCD) Coordinator when staff, who are assigned broadband cards, are leaving the Department. This will ensure that inventory records are updated and service is cancelled promptly.
- A new mobile device policy will be developed that will address use of broadband cards and mandate the maintenance of an accurate inventory.

#### TRUST FUNDS

#### Recommendations:

58. Maintain documentation indicating the purpose and authority for each trust fund.

Department Response:

- A memo will be issued to appropriate staff emphasizing compliance with County Fiscal Manual guidelines.
- A job-specific manual for each accounting unit staff member will be developed and distributed.
- 59. Maintain detailed ledgers for all trust funds, and reconcile the records to eCAPS monthly.

#### Department Response: AGREE

- A memo will be issued to appropriate staff addressing the maintenance of detailed ledgers for all trust funds, and reconciliation of records to eCAPS monthly.
- A job-specific manual for each accounting unit staff member will be developed and distributed.
- Determine the source of the \$18,000 balance in the TU3 trust fund, and appropriately disposition the funds, as necessary.

#### Department Response: AGR

Management Services is reviewing the source of the \$18,000 balance in the TU3 trust fund and will determine appropriate action.

61. Assessor management ensure Accounting unit staff transfer revenue from trust funds timely.

## Department Response: AGREE

- A memo will be issued to appropriate staff outlining appropriate County Fiscal Manual guidelines.
- A job-specific manual will be developed and distributed to accounting unit staff that will address the timely transfer of revenue from trust funds.

#### **REVOLVING FUNDS**

#### Recommendations:

62. Ensure that revolving fund purchases, between \$25 and \$1,000, are limited to emergency purchases, when prepayment is required, etc.

#### Department Response: AGREE

- Management Services will issue a memo to staff reminding them of guidelines regarding revolving fund purchases.
- Justifications for revolving fund purchases are now required and will be approved only if deemed urgent.
- · The policy will be reviewed annually along with other standard policies and procedures.

63. Ensure that an individual with procurement expertise is involved in revolving fund purchases.

Department Response:

AGREE

- The Department will reassign, train or hire staff in order to implement this recommendation
- 64. Reevaluate the Department's revolving fund assignment to determine if the amount should be reduced, and return any excess funds to the Auditor-Controller's Accounting Division.

Department Response:

AGREE

- · The revolving fund activity was reviewed and will be reduced.
- Accounting Unit staff will work with the Auditor-Controller staff to make necessary changes.
- 65. Work with CEO's Office of Workplace Programs to transfer the remaining charitable giving funds, and obtain guidance/training on how to properly deposit and account for charitable giving funds.

Department Response:

AGREE

- The department is working with the CEO's Workplace Program Office to transfer the remaining charitable giving funds.
- 66. Require staff to conduct periodic surprise cash counts of revolving funds.

Department Response:

AGREE

The department will incorporate this practice as part of our ongoing procedures and conduct random reviews.

 Ensure staff follow up on uncashed revolving fund checks and cancel them timely, as necessary.

Department Response:

AGREE

- The Accounting Unit staff will cancel the current outstanding checks totaling \$159.98. In the future, uncashed revolving fund checks will be monitored and cancelled in a timely manner.
- The policy and procedures will be redistributed and reviewed annually.
- 68. Ensure the revolving fund checks indicate "Amounts over \$500 require two signatures".

Department Response:

- The department's policy requires two signatures for all revolving fund checks issued including those under \$500.
- New checks specifying that two signatures are required for warrants exceeding \$500 will be ordered.

#### INTERNAL CONTROL CERTIFICATION PROGRAM

#### Recommendations:

 Require staff to accurately complete the Internal Control Certification Program questionnaire, identify all internal control weaknesses, and develop an improvement plan to address each control weakness.

#### Department Response:

- In 2013, all assessable units in the Department will participate in the Internal Control
  Certification Program. It is anticipated that the questionnaire will be distributed in
  February 2013. The Department will instruct all staff to complete the questionnaire and
  managers to develop an improvement plan to address each control weakness.
- 70. Review completed Internal Control Certification Program questionnaire and improvement plans, and monitor to ensure the timely implementation of corrective action.

## Department Response:

- In 2013 all assessable units in the Department will participate in the Internal Control Certification Program.
- The department will review the ICCP questionnaire and instruct responsible managers to monitor and ensure implementation of corrective plans.



## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION 500 WEST TEMPLE STREET, ROOM 525 LOS ANGELES, CALIFORNIA 90012-3873 PHONE: (213) 974-8301 FAX: (213) 626-5427

August 14, 2013

TO:

Supervisor Mark Ridley-Thomas, Chairman

Supervisor Gloria Molina Supervisor Zev Yaroslavsky Supervisor Don Knabe

Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe Que

Auditor-Controller

SUBJECT:

REVIEW OF THE OFFICE OF THE ASSESSOR'S SECURED

PROPERTY SYSTEMS (Board Agenda Item 36-A, April 10, 2012)

At the April 10, 2012 meeting, your Board instructed the Auditor-Controller (A-C) to review four areas in the Office of the Assessor (Assessor): 1) review the Assessor's Fiscal Year (FY) 2012-13 assessed value roll forecast; 2) conduct a comprehensive management audit; 3) review the Assessor's business operations and controls, including fiscal activities, and the secured and unsecured property systems; and 4) review properties with a 20% or greater reduction in value from December 2010 to January 2012 to determine appropriateness.

#### Status

Area 1: The assessed value roll forecast review was completed and issued to your Board in May 2012.

Area 2: The management audit was completed and issued in January 2013.

Area 3: The fiscal review was completed and issued in January 2013. The secured property system review is included in this report. The final portion of Area 3, the unsecured property system review, is ongoing and we will provide a report upon completion.

Area 4: The review of properties with value reductions in excess of 20% is complete. We are in the final review stage and anticipate issuing the report by the end of August.

Help Conserve Paper – Print Double-Sided "To Enrich Lives Through Effective and Caring Service" Board of Supervisors August 14, 2013 Page 2

We contracted with an independent consultant who is reviewing the Assessor's property valuations.

As mentioned, this report covers a portion of Area 3, a review of the Assessor's secured property valuation systems (Systems). The Systems are used to process and record the appraised values of secured property (real estate) in the County, which are used to establish the property taxes owed on each parcel.

Our review included determining whether the Assessor's Systems controls were adequate to ensure that only authorized appraisals were processed, and were processed correctly. In FY 2011-12, the secured property in the County had a total assessed value of approximately \$1.1 trillion, and the Assessor staff used the Systems to process over 700,000 appraisals for value changes resulting from assessment appeals, decline-in-value requests, etc., totaling approximately \$60 billion in value changes.

## Results of Review

Our review disclosed that the Assessor does not have adequate documentation for some property appraisals. We also noted significant weaknesses in the Assessor's controls over changes in property values processed by the Systems. Specifically:

The Assessor needs to ensure that property appraisals are properly documented.
 Forty-eight (24%) of the 200 appraisals reviewed did not have adequate documentation to support the appraised values (e.g., comparable sales data or property income/expense figures).

The Assessor's attached response indicates that they will create policies/procedures for documenting property appraisals, train staff on the new policies, and conduct periodic quality assurance reviews to ensure compliance. They also indicate that they will enhance two Systems to prevent staff from processing appraisals without certain required documentation. The Assessor also reviewed the forty-eight appraisals identified by the A-C, and determined that two had enough support on file. Subsequent to our review, Assessor management was able to provide support for one of the two appraisals. Forty-seven appraisals still lack adequate documentation.

- The Assessor needs to ensure that staff enters property values in the Systems accurately, and needs to develop exception reports to detect valuation errors.
   We noted that staff entered property values into the Systems inaccurately and, in some cases, improperly. For example:
  - Appraisers and clerical staff entered inaccurate information for seven property value reductions, and undervalued the properties by a total of \$22.5 million.

Errors in these value reductions resulted in \$179,000 in inappropriate property tax refunds/under billings. We referred five of these value reductions to the A-C's Office of County Investigations (OCI). OCI reviewed the value reductions and concluded there was no evidence that the reductions were fraudulent.

- Appraisers overvalued an oil-producing property by \$2.3 million because they did not consider limits on the use of the land.
- Appraisers undervalued a commercial property by \$2.5 million because they inaccurately coded a parcel change input document.

The Assessor's response indicates that they have corrected all the errors, and processed the appropriate tax billings. They also indicate that they will remind staff of proper parcel value change procedures, and will enhance the Systems to help prevent data entry errors and valuation errors for oil-producing properties. The Assessor also indicates that they will develop and review exception reports for high-dollar and percentage property value reductions.

 The Assessor needs to ensure that manual property value change forms are properly approved, supervisors do not approve and staff do not use their supervisors' access to approve their own appraisals in the Systems.

Forty-three (43%) of the 100 manual property value change forms reviewed were not signed by the staff appraisers who did the appraisals, or were only signed by the Supervising Appraisers. In addition, six (33%) of the 18 value reductions reviewed that were over \$5 million did not have the required higher-level approvals. The Assessor needs to ensure that staff signs all manual value change forms they complete, and enforce existing policy that all value changes are properly approved.

Supervising Appraisers electronically approved 12,876 of their own appraisals during FY 2011-12. Each of these appraisals were completed with effectively no secondary review. Staff appraisers also approved at least 29 of their own appraisals, and may have approved an additional 54 of their own appraisals using their supervisors' Systems access.

The Assessor's response indicates that they reminded staff to ensure manual value change forms have the appropriate approvals, and will conduct quality assurance reviews to ensure compliance. They also indicate that they made changes to the Systems to prevent all users from approving their own appraisals, and to require higher-level approvals in the Systems, instead of on manual forms, when feasible.

The Assessor needs to eliminate an override field in two of its Systems. We noted data entry inaccuracies in the field that resulted in significantly undervalued properties, including instances where staff dropped zeros (e.g., a \$4,500,000 value was entered as \$450,000). As mentioned, undervaluing properties has resulted in property tax refunds/under billings.

The Assessor's response indicates that they will not eliminate the override field because it is necessary for certain types of appraisals, such as Economic Unit appraisals. However, they indicate that they will improve controls for overrides by changing the Systems so appraisers are required to document the reason for an override, and so appraisers do not need to use the override field to round property values. The Assessor also indicates that they developed a report to identify and review unusual valuations processed in the override field.

While the Assessor's alternative measures will help reduce the risk of inappropriate valuations in the override field, we do not agree that the override field is necessary. We will work with the Assessor on potential Systems changes, and will evaluate their alternative measures in a follow-up review after their corrective actions are fully implemented.

 The Assessor needs to ensure adequate controls over Systems access, including eliminating a Systems function that is designed for managers/supervisors to anonymously share their access, terminating access of employees who leave or transfer, and reviewing employees' Systems access on an annual basis.

The Assessor's response indicates that they will not eliminate the access sharing function, but will improve controls so that staff's activity is tracked when using their supervisor's access and so staff cannot approve their own work when using their supervisor's access.

While the Assessor's alternative measures will help improve accountability over shared access, the access sharing function violates County Fiscal Manual (CFM) and Board of Supervisors Information Technology (IT) Policy, and we believe alternate access roles can be developed to further improve control over designating backups. We will work with the Assessor on potential Systems changes and will evaluate their alternative measures in a follow-up review after their corrective actions are fully implemented.

The Assessor agreed to establish procedures to immediately remove access when employees terminate or transfer, and to annually review users' systems access.

Board of Supervisors August 14, 2013 Page 5

• The Assessor needs to ensure that property appraisals are completed timely. 7,094 (7%) of the 97,433 transfer appraisals for FY 2011-12 were not processed within the Assessor's 120-day goal. On average, these untimely appraisals took 225 days to complete. We reviewed 20 of the untimely transfer appraisals and noted that 11 (55%) were not completed in time to meet the years' tax role. This includes six that have not yet been completed and could result in \$4.1 million in supplemental taxes being due to the County and local taxing agencies once Assessor staff process them. Four other transfers were delayed beyond statutory time limits resulting in \$66,000 in lost tax revenues. While it appears that the majority of the 7,094 delays were not lengthy enough to result in lost taxes, many of the late appraisals resulted in delayed tax revenues. Assessor needs to develop exception reports to identify and resolve appraisal delays that could result in the deferral or loss of tax revenues.

The Assessor's response indicates that they have processed five of the six outstanding transfer appraisals, developed a formal policy for processing transfer appraisals timely, and enhanced the transfer appraisal system to track appraisals over 120 days old and to require higher-level approval to exceed 120 days.

Details of these and other findings and recommendations are included in the attached report.

## Acknowledgement

We discussed our report with Assessor management who generally agreed with our findings and have already implemented some of our recommendations. While the Assessor's corrective action plan indicates they will not implement two of our recommendations, the Assessor indicates they will implement alternative measures to address the weaknesses noted in our review. The Assessor's response is attached.

We thank Assessor management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:MP

Attachments

 Santos H. Kreimann, Chief Deputy Assessor, Office of the Assessor William T Fujioka, Chief Executive Officer
 Sachi A. Hamai, Executive Officer, Board of Supervisors Public Information Office
 Audit Committee

## REVIEW OF THE ASSESSOR'S SECURED PROPERTY SYSTEMS

## Background

The Office of the Assessor (Assessor) is responsible for appraising the value of real and personal property in the County. Property taxes are imposed based on the values determined by the Assessor.

The Assessor uses the Paperless Transfer (PTS), Decline-in-Value (DIV), and AS/400 Secured Data Entry (SDE) systems (Systems), to process secured property (real estate) appraisals. The property values from the Systems are sent electronically to the Secured Property Database (Secured Database), and serve as the basis for levying property taxes. In Fiscal Year (FY) 2011-12, secured property in the County had a total assessed value of approximately \$1.1 trillion, and the Assessor used the Systems to process over 700,000 appraisals. The appraisals resulted in \$60 billion in changes to assessed property values.

We reviewed the Assessor's appraisal documentation, and procedures and internal controls over the Systems for compliance with County fiscal policies. Our review included evaluating controls over Systems access and real property valuations, including the transfer of valuations to the Secured Database.

## Real Property Appraisals

The Assessor's staff appraise real property when events such as ownership transfers, declines in market value, or new construction occur. Assessor's appraisal staff document the appraisal in a manual parcel file, obtain their supervisor's signature on a value change form, and submit the form to clerical staff for data entry into the Systems.

Appraisers can also use the Assessor's appraisal Systems to calculate property values based on comparable property sales and to document appraisals. The Systems then generate a value change for the supervisor to approve electronically in the Systems.

### Appraisal Documentation

The Assessor's Real Property Handbook requires staff to document all appraisals in the parcel file or appraisal Systems. The appraised value should be supported by an analysis of comparable property sales or property income/expense figures.

We noted that forty-eight (24%) of the 200 appraisals reviewed did not have adequate support for the appraised values. Specifically:

 Twenty-eight (14%) of the appraisals did not have enough evidence in the parcel file or in the appraisal Systems describing how the value was determined, such

as an analysis of comparable property sales, or documentation of the income/expense figures used.

 Twenty (10%) of the appraisals had a comparable sales analysis on file, but appraisers valued the properties as much as \$496,000 (62%) higher/lower than the analysis indicated, without documenting how or why adjustments were made.

Assessor management needs to ensure that property appraisals are properly documented in the parcel files or appraisal Systems.

## Recommendation

1. Assessor management ensure that all property appraisals are properly documented in the parcel files or appraisal Systems.

We also contracted with an independent consultant who is reviewing the Assessor's property valuations. We will report these results by the end of August as part of Area 4 of our Assessor's reviews.

## **Property Valuations**

Assessor's Policy 5211-01-2 requires appraisers to value natural resource properties (e.g., oil and gas producing property) at market value, with a reduction based on limits on the use of the land (i.e., property that has oil or gas present can only be used to harvest the oil/gas, and not for other purposes).

We reviewed 152 property value changes for which the Assessor had documentation, and noted nine (6%) were not accurate or did not comply with the Assessor's policy. Specifically:

Seven property values were entered inaccurately in the Systems. For example, an appraiser entered a property valued at \$4.5 million as \$450,000. In total, the appraisers' entry errors undervalued the seven properties by \$22.5 million, or 71% of the actual appraised value of \$31.7 million, resulting in approximately \$179,000 in inappropriate tax refunds and under billings.

While Assessor staff were able to identify and correct four of the seven errors, the County lost approximately \$600 in interest that was paid on one of the erroneous tax refunds. The other three errors, totaling \$72,000 in refunds/under billings, were still not corrected for up to eight months after they occurred. We referred five of these value reductions to the Auditor-Controller's (A-C) Office of County Investigations (OCI). OCI reviewed the value reductions and concluded there was no evidence that the reductions were fraudulent.

 One oil producing property was overvalued by \$2.3 million because appraisers did not reduce the value to reflect limits on the use of the land (impairment). While Assessor staff corrected this error after the property owner complained, Assessor management should establish controls to prevent the valuation of natural resource properties without impairment reductions.

 One commercial property was undervalued by approximately \$2.5 million because staff did not correctly process a parcel change in the Systems, resulting in \$95,000 in inappropriate tax refunds. While these refunds were all returned to the County, Assessor's management needs to resolve the inappropriate tax refunds in the Systems and remind staff of parcel change procedures.

We also noted that Assessor does not have sufficient exception reports to identify properties with potentially inappropriate value reductions, such as appraisals with high percentage and/or dollar value declines mentioned above.

Assessor management should implement the following recommendations.

## Recommendations

## Assessor management:

- Resolve the \$167,000 (\$72,000 + \$95,000) of inappropriate tax refunds/under billings, and remind staff of parcel value change procedures.
- Ensure natural resource properties are valued with consideration of the property impairments.
- Develop exception reports to identify and review significant property value changes, such as large percentage or dollar value declines, and require managers to review the reports and validate the value changes.

### Approval Controls

County Fiscal Manual (CFM) Section 8.3.3 requires independent approvals and controls over information input into electronic systems. In addition, Assessor's Policy 1502-1-8 requires appraisals to be reviewed/approved by a Supervising Appraiser, with higher-level approvals required for property value reductions based on the amount of the reduction.

We noted that the Assessor staff do not always obtain required approvals for the appraisals entered into the Assessor's Systems. Specifically:

 Supervising Appraisers electronically approved 12,876 of their own appraisals during FY 2011-12. Each of these appraisals were completed with effectively no secondary review. In addition, 43 (43%) of the 100 manual property value change forms reviewed were only signed by the supervisors. This may indicate that the staff appraisers did not sign the change forms, or the supervisors approved their own work on these changes.

- Staff appraisers and Information Technology (IT) support personnel may have inappropriately used a Systems access sharing feature (discussed later in the Access Controls section) to approve 83 of their own appraisals using their supervisors' access. In 29 of these instances, staff admitted that they approved their own appraisals with their supervisor's knowledge.
- Appraisers processed six (33%) of the 18 value reductions reviewed, that were over \$5 million, without the required higher-level approvals in the manual parcel files.

Assessor management indicated that, based on previous issues with appraisals that were not approved, they revised their property value change forms in February 2011 to require a supervisor's approval. However, we noted instances where staff appraisers continued to use the old forms, increasing the risk that appraisals could be input into the Systems without a supervisor's approval. We also noted that clerical staff entered 394 property value changes in the Systems without the required supervising clerk's review for accuracy.

The approval issues and the valuation errors noted above were not identified by the Assessor's supervisors. This indicates that the supervisors are not adequately reviewing their staff's work. The Assessor management should implement the following recommendations.

## Recommendations

#### Assessor management:

- Immediately prevent Systems users from approving their own work, and ensure manual appraisals are signed by the appraisers and approved by a supervisor/manager.
- Ensure appraisers obtain the required higher-level approvals for value reductions over \$5 million, and evaluate enhancing the Systems to require electronic approvals of high dollar and percentage value reductions.
- 7. Review the appraisals where it appears that staff entered and approved value reductions with their supervisor's access to ensure they were appropriate, and report the results to the A-C within 60 days.

8. Reinforce the requirements to only use current value change forms, and that clerical staff must reject value change forms that are outdated or do not have the required signatures.

## **Property Value Overrides**

Appraisers use the Assessor's online appraisal Systems to generate comparable property sales, and to estimate property values for appraisals. After calculating a property value based on comparable sales, appraisers can override the System-generated calculation by up to \$1,000 to round off the new property value, as specified in Assessor's Policy 5049-01-0.

We noted that appraisers do not always use the Value Override (VO) field as intended. Specifically, approximately 22,000 (5%) of the 480,000 overrides processed during FY 2011-12 were for more than \$1,000, up to \$4 million. Supervising Appraisers indicated that some of these overrides were data entry errors when entering the rounded value, as noted in the Property Valuations Section above. However, the Supervising Appraisers also indicated that other overrides were not data entry errors, but were rounded by more than \$1,000, which violates the Assessor's policy.

We also noted that appraisers sometimes used the VO field to enter their opinion of the property value based on information they obtained outside the Systems (e.g., other comparable sales). However, the Systems have other fields for staff to enter their opinion of value, so management can track and identify the appraisals staff perform outside the Systems. The VO field should not be used to enter these non-System derived values.

To limit misuse of the VO field, Assessor management should evaluate modifying the Systems to automatically round property values, and eliminate the VO field. Assessor management should also establish policies and procedures clearly describing how appraisers should enter their opinion of property values in the Systems.

#### Recommendations

## Assessor management:

- 9. Evaluate modifying the Systems to automatically round property values, and eliminate the Value Override field.
- Establish procedures clearly describing how appraisers should enter their opinion of property values in the Systems, and monitor for compliance.

## **Access Controls**

CFM Sections 8.6.3 and 8.6.4 require departments to limit system access based on each user's responsibilities, periodically review user access to ensure it is authorized and appropriate, ensure system audit trails identify the individual who performed each transaction, and require that passwords are complex to maintain their effectiveness. These controls enhance system access security and data integrity.

## **Sharing System Access**

The Assessor established a function in two of their systems allowing managers and supervisors to share their access with other users, including lower-level staff, and for IT/Support staff to use any other user's access at any time. Any transactions staff perform using the borrowed access, such as property value changes, are recorded in the borrowed user's name.

As discussed earlier, we noted numerous instances where staff told us they used their supervisor's access to approve their own work, and additional instances where staff may have used their supervisor's access to approve their own work. However, since the Systems record all shared activity in the supervisors' names, we could not always determine what action staff took.

Assessor management indicated that they established the sharing function to allow managers and Supervising Appraisers to designate back-ups to distribute the work in their absence, and for IT/Support staff to view information and troubleshoot system issues. However, sharing access and approval authority violates CFM Section 8.6.4 and Board of Supervisors Policy 6.101, and significantly increases the risk for inappropriate activity, such as inappropriate approvals.

## Recommendation

11. Assessor management immediately eliminate the Systems access sharing function, and establish alternate Systems access roles for designated back-ups as necessary.

#### Inappropriate User Access

We reviewed Systems access for 40 staff, and noted 13 (33%) have inappropriate access. Specifically:

- Five clerical staff have unneeded access to approve value changes in the SDE system, and are able to approve their own work.
- · Four appraisers have unneeded access to the SDE system.

 Four appraisers have unneeded IT support access in PTS/DIV, and the access allows them to use other users' access at any time.

We also reviewed all Systems users and noted 12 who left the Assessor between May 2009 and November 2011, but their access was not terminated. Although the access for the 12 out-of-service employees and 13 instances of inappropriate access were not used, Assessor management should cancel terminated employees' access and restrict users' access based on work assignments.

We also noted that the following access should be separated:

- Approximately 500 appraisers, who process decline-in-value reviews in DIV, can also initiate reviews of specific properties through the Assessor Public Service System without management approval or the homeowner's consent. This access increases the risk for inappropriate activity.
- At least six programmers, who develop Systems changes, can also implement the changes they design without a separate review, increasing the risk of unauthorized, inaccurate, or untested changes going undetected.

One of these programmers also regularly designs and implements Systems changes without a separate approval or review for accuracy. Assessor management should ensure these changes were appropriate, and restrict programmer access as required by CFM Section 8.2.2.

Assessor management should implement the following recommendations.

## Recommendations

### Assessor management:

- 12. Cancel terminated employee's access, and restrict users' access to the Systems based on work assignments.
- 13. Separate the duties of initiating and processing decline-in-value reviews, and the duties of programming and implementing Systems changes.
- 14. Determine the accuracy of Systems changes processed without appropriate review/approval.

### Access Control Procedures

We identified several administrative and procedural weaknesses that contributed to the access issues noted above:

- The Assessor does not have written policies and procedures to create, limit, and periodically review users' access to the Systems as required by CFM Section 8.6.4. This includes properly defining system access roles and their capabilities.
- The Assessor does not always document approval for access assignments and changes as required by CFM Section 8.6.3. Of the 40 Systems' users reviewed, 38 (95%) did not have documented approval for their access levels, including the 13 staff with inappropriate access mentioned in the section above.
- The Assessor does not monitor users with high-level Systems access as required by CFM Section 8.6.4. Employees also share two generic log-on identifications (IDs) with high-level access, including the ability to make changes to the Systems programs, so there is no record of who used the IDs.
- The SDE system passwords are not case-sensitive as required by CFM Section 8.6.4.

To ensure information in the Systems is safeguarded, and minimize the risk of inappropriate activity, Assessor management should implement the following recommendations.

## Recommendations

## Assessor management:

- 15. Establish policies and procedures to create, limit, and periodically review system access roles, and document approval for access assignments and changes.
- Monitor users with high-level access, and ensure all user IDs are assigned to specific individuals.
- Ensure passwords in the Secured Data Entry system are casesensitive.

### Transfer Appraisal Processing Delays

Assessor management established a goal for staff to appraise properties that transfer ownership within 120 days of receiving the deed. This goal ensures property owners get timely tax bills based on their property's updated value, and that the County and local agencies receive the correct property taxes. California Revenue and Tax Code Section 5097 generally prohibits the County from correcting tax bills after four years.

We reviewed all 97,433 transfer appraisal assignments for FY 2011-12, and noted that 7,094 (7%) were not processed within the Assessor's 120-day goal, including 508 that took over a year to process, and four that took over four years. Also, 11 (55%) of the 20

untimely appraisals reviewed were not completed in time to meet the year's tax roll, which delayed assessments and property tax receipts. Specifically:

- Five of the 11 untimely appraisals completed during FY 2011-12 were for transfers that the Assessor received as far back as FY 2007-08. While the completed appraisals generated \$179,000 in supplemental tax bills for prior years, the County could have billed and collected these amounts in prior years if Assessor staff had completed the appraisals timely. The County also lost approximately \$66,000 in taxes because, in four cases, the appraisal delays and State law prevented the County from billing for tax periods more than four years old.
- Six of the 11 appraisals were still unprocessed as of September 2012, even though the Assessor received the transfers as far back as FY 2010-11. Based on Assessor's sales data for these properties, approximately \$4.1 million in supplemental taxes once staff process the appraisals.

We also noted that the Assessor does not have exception reports to help monitor appraisals for compliance with their 120-day processing goal, or identify and resolve appraisal delays that could result in lost taxes. Assessor management also indicated that staffing/workload constraints or complex transfers caused the delays above.

Assessor management needs to complete the six pending transfer appraisals noted in our review, develop exception reports to identify appraisal backlogs, and monitor/expedite untimely appraisals.

### Recommendations

## Assessor management:

- 18. Complete the six pending transfer appraisals noted in our review.
- Develop monitoring reports to expedite untimely transfer appraisals, and evaluate if staff need to be re-assigned to address backlogs.

### Standards and Procedures

CFM Section 8.2.3 requires departments to have standards and procedures to guide supervisors and staff in performing their duties. We noted that the Assessor does not have written standards/procedure for some of the processes we reviewed, including the processing and documenting of property value changes and overrides, monitoring appraisal backlogs, correcting property value posting exceptions, and testing and documenting Systems changes.

To ensure staff are aware of their responsibilities, Assessor management needs to develop or update their policies and procedures in these areas.

## Recommendation

20. Assessor management develop or update their policies and procedures for the areas noted in our review.

## Secured System Replacement

The Assessor developed the SDE system in the 1970s for staff to process all property value changes, then added the PTS and DIV systems in 2005 and 2010 to assist appraisers in expediting decline-in-value and ownership transfer value changes. As mentioned, all three systems feed property values to the Secured Database.

These systems are outdated, inefficient, and/or contribute to the weaknesses noted in our review. For example, the Assessor continues to use the SDE system to process manual value changes, even though the process is inefficient, and the manual approvals are difficult to enforce and easier to circumvent. Also, the PTS/DIV systems cannot handle some complex appraisals, such as non-residential appraisals or land/improvement only transfers.

The SDE system program is also 40 years old, and limits the Assessor's ability to process property transactions timely. For example, the SDE system cannot post value changes to the Secured Database in real-time, and the Assessor has to process all transactions over the weekend to prevent the SDE system from crashing. Thus, transactions sometimes take up to a week to be updated within the Secured Database.

Assessor management acknowledged that their Systems need to be replaced, but told us that, in 2007, they put the replacement efforts on hold because they could not find a qualified vendor. To improve control and efficiency of the appraisal process, the Assessor should develop a plan that includes timeframes and milestones to replace their Systems.

### Recommendation

21. Assessor management develop a plan, including timeframes and milestones to replace their Secured Property Systems.



## OFFICE OF THE ASSESSOR COUNTY OF LOS ANGELES

500 WEST TEMPLE STREET, ROOM 320 LOS ANGELES, CALIFORNIA 90012-2770 (213) 974-3101 assessor.lacounty.gov

#### SANTOS H. KREIMANN CHIEF DEPUTY ASSESSOR

June 7, 2013

TO:

Wendy L. Watanabe

Auditor-Controller

FROM:

Santos H. Kreimann

Chief Deputy Assessor

SUBJECT:

REVIEW OF THE OFFICE OF THE ASSESSOR'S SECURED PROPERTY TAX SYSTEMS

Attached is the Assessor's response to the recommendations contained in the Review of the Office of the Assessor's Secured Property Tax Systems conducted by your office. Please see the attached document which reflects our responses to the recommendations.

If you have questions or need additional information, please contact Sharon Moller, Assistant Assessor of Operations at (213) 974-3101.

SHK:SM:jc

Attachment

"Valuing People and Property"

#### Appraisal Documentation

 Assessor's management ensure that property appraisals are properly documented in the parcel jacket or appraisal systems.

#### Department Response: AGREE

Although it is standard appraisal practice to consider all sources of information (including information provided by the property owner) and exercise Appraiser experience and judgment in determining a value conclusion, the department recognizes that these judgments may not be sufficiently noted in certain appraisals. Assessment Services/Appraisal Standards will create policies and procedures for sufficient documentation of the various types of property appraisals. This shall include guidelines of noting where supplementary information that is considered but not contained in a valuation is located. Real property appraisal staff will be required to adhere to these requirements which will also be added to our training program. Periodic quality assurance reviews will be conducted following implementation in order to ensure compliance. Additionally, the following system changes shall be made to enhance the documentation of and justification for value conclusions:

- Both PTS and DIV systems shall prohibit an appraisal to be submitted without a comment when an appraiser selects a value to enroll other than the calculated appraised value.
- Both PTS and DIV systems shall prohibit a value conclusion to be submitted without a comment if it is submitted with the "Enroll Other" value option.

Lastly, the department reviewed the identified parcels with which the audit report found exceptions. Internal review discovered that of the 48 parcels identified 2 parcels had appropriate documentation in the parcel jacket or appraisal notes in the systems and the remaining 46 parcels had limited documentation in the appraisal notes. In five of these cases, as staff reviewed the valuations, a new appraisal was performed which validated the value conclusion of the original enrollment (see the attached Report Findings).

#### **Property Valuations**

 Resolve the \$167,000 (\$72,000+\$95,000) of inappropriate tax refunds/under-billings, and remind staff of parcel value change procedures.

#### Department Response: AGREE

The errors have been corrected and the appropriate billing has been processed. In order to prevent future occurrences, we have implemented a warning system that will alert both the appraiser and supervisor if the enrolled value is outside of reasonable parameters. We will also run a query at the end of the season as an added precaution to identify outliers.

The refund that was associated with a parcel change resulted from a particularly complicated series of parcel splits and combinations. The assessments on all of these parcels were reviewed and corrected where necessary by the Special Investigations unit. The department shall remind staff of appropriate parcel change procedures.

Ensure natural resource properties are valued with consideration of the property impairments.

Department Response: AGREE

In this case, the appraiser was unaware that this was an impaired property that should have been referred to another section for processing. Impaired properties are identified by their cluster number. Our procedures require referral of impaired properties to the Natural Resources section (Region 30) after fee valuation. Natural Resources is responsible for calculating the value of the impairment prior to enrollment.

In order to prevent future occurrences, the Property Transfer and Decline-in-Value systems have been programed to include an alert on impaired properties, so that appraisers can easily identify those parcels that must be referred to Region 30.

Develop exception reports to identify and review significant property value changes, such
as large dollar value and/or percentage value declines, and require managers to review the
reports and validate the value changes.

#### Department Response: AGREE

The department previously created Decline-in-Value reports that identify reductions greater than one (1) million dollars. These reports are reviewed annually. Although, the implementation of Recommendation 6 appears to eliminate the need for this report, the department shall continue producing the report annually to validate the controls implemented from this Recommendation. The department shall also create reports that indicate percentage reductions for review and validation. These reports will be generated, minimally, on an annual basis in June once the annual decline-in-value reviews are completed. These reports shall be distributed to managers for review and action where appropriate. The department's Quality Assurance section will also conduct periodic reviews to ensure accuracy and compliance.

#### **Approval Controls**

Immediately prevent System users from approving their own work; and ensure manual appraisals are signed by the appraisers and approved by a supervisor/manager.

#### Department Response: AGREE

Changes to the Paperless Transfer System (PTS) and Decline-in-Value (DIV) systems have been made to ensure that no one can approve their own submitted work. Staff has been instructed to ensure that any manually submitted documents contain the appropriate preparer and approval signatures.

The Quality Assurance (QA) section will periodically review the manual documents to ensure that policies and procedures are followed.

The department currently has manual policies and procedures to prevent this situation for the Secured Data Entry (SDE) system. However, no system controls are in place to prevent this. In order to implement this recommendation, the department would need to procure the services of a contract programmer to modify the programs that were developed by an outside contractor in 1998. This makes immediate system changes prohibitive; however, the department is pursuing a replacement of the existing legacy systems. This replacement system will be developed in compliance with the recommended controls.

 Ensure appraisers obtain the required approvals for value reductions over \$5 million; and evaluate enhancing the Systems to require electronic approvals of high dollar and percentage value reductions.

Department Response: PARTIALLY AGREE

The department agrees with this recommendation as it applies to our Decline-in-Value system (DIV). This is the only system that calculates differences between the enrolled value and value to be enrolled that result from a review. The system enhancement to DIV will escalate approvals according to department policy for values prescribed in our Policy and Operating Practice Manual Section 1502-1. Additionally, policy clarifications shall be made to distinguish changes of value that are the result of a new assessment versus a correction to an existing roll.

Pursuant to Policy Memo 1502-1, manual processes exist that requires all appropriate signatures prior to submitting processing documents for entry into Secured Data Entry (SDE). Clerical has been trained to reject any document that does not have the appropriate signatures. QA shall perform periodic reviews to ensure that the procedures are followed.

PTS and SDE will require separate, different, and difficult changes in order to implement this recommendation that prohibit its implementation. To implement these changes in PTS the department would be required to make design changes to the system database design and interface. Secured Data Entry (SDE) is a batch entry system. No facility has been identified that would allow values in the data entry to be compared with values on the mainframe. This makes immediate system changes prohibitive; however, the department is pursuing a replacement of the existing legacy systems. This replacement system will be developed in compliance with the recommended controls.

 Review the appraisals where it appears that staff entered and approved with their supervisor's access to ensure they were appropriate; and report the results to the Auditor-Controller within 60 days.

#### Department Response: AGREE

The Assessor's Quality Assurance section has reviewed these valuations. Upon close review, no irregularities were discovered in the valuations. As such, no additional review is required for these parcels.

The implementation of Recommendation 11, below, shall prevent this from occurring in the future in both the PTS and DIV systems.

Reinforce the requirement to only use current value change forms, and that clerical staff
must reject value change forms that are outdated or do not have the required signatures.

### Department Response: AGREE

Staff has been informed to use the proper value change forms and all electronic versions of these forms were reviewed to ensure that only the current forms are available.

Clerical staff was retrained on signature requirements in October 2012. Clerical procedures were revised to reflect the importance of proper signature requirements and have been uploaded to the department intranet. QA will conduct periodic reviews to monitor compliance of both current form usage and signature requirements.

Appraisal Standards shall continue to annually review and monitor forms to ensure that only the most current versions are available to staff.

#### **Property Value Overrides**

 Evaluate modifying the systems to automatically round property values, and eliminate the Value Override field.

#### Department Response:

PARTIALLY AGREE

The Value Override is needed to properly process certain types of valuations. For example, the department must value Economic Units consisting of many parcels that must be considered as one valuation unit. Appraisers perform a market valuation using the primary parcel but consider all of the impacted parcels. The total market value is derived, but must then be allocated among all of the parcels. The Value Override field allows for this necessary allocation of value.

However, the department will review Real Property Handbook Section 5049-1, *Minimum Values and Rounding off Land or Improvement Values*, to validate and/or update the policy, and staff will be trained on any updates. Additionally, both PTS and DIV systems shall be modified to automatically round total values so that appraisers will not have to use a value override to round the value. Additionally, a control shall be implemented that will require an appraiser to provide a comment if they use the value override feature. If they do not make a comment, they will be unable to proceed with the appraisal process. This applies to the "Enroll Other Value" functionality in the value conclusion area of the systems as well.

Values that are used to make decisions shall also be comma formatted to make review easier and to reduce potential errors caused by data entry mistakes.

A query has been developed that identifies overrides that exceed standard rounding variations. This query will be periodically reviewed to ensure that they conform to policy.

 Establish procedures clearly describing how appraisers should enter their opinion of property values in the systems, and monitor for compliance.

#### Department Response: AGREE

A user guide exists for PTS; however, it addresses the entire system. Formalized written policies and procedures will be created for the entry of appraisers' opinion of value. System modifications have been implemented to alert appraisers when large value changes are indicated. The department will also create a quick user guide that specifically identifies the appropriate methods for entering opinions of value. This information shall be distributed to all appraisal staff and periodically reviewed by Quality Assurance.

Both PTS and DIV systems shall be modified to automatically round total values so that appraisers will not have to use a value override to round the value. Additionally, a control shall be implemented that will require an appraiser to provide a comment if they use the value override feature. If they do not make a comment, they will be unable to proceed with the appraisal process. This applies to the "Enroll Other Value" functionality in the value conclusion area of the systems as well.

#### Sharing System Access

 Assessor's management immediately disable and remove the system access sharing function, and establish alternate system access roles for designated back-ups as necessary.

Department Response:

PARTIALLY AGREE

This recommendation has been implemented in both the PTS and DIV systems. The department will continue to allow for the designation of a back-up; however, when the designated backup is acting on behalf of the supervisor, the systems will not allow the designee to approve valuations made by the supervisor or the backup supervisor. This creates direct audit linkages between every approval of an appraisal and the individual performing the approval. The DIV and PTS systems have been modified in a manner to ensure accountability, as follows:

- 1. Systems were modified to allow for supervisors to designate back-up staff;
- 2. Back-up staff may act as the supervisor on their behalf;
- When back-up staff are acting on behalf of the supervisor and approving work, both the individual who performed the approval and the supervisor under whose authority the approval was made are captured and saved; and
- In no case can any individual submit a valuation under their name and approve the valuation
  - a. If staff is designated as back-up for the supervisor and is acting in that capacity, the system will automatically disallow that individual to approve any work they submitted to the supervisor on whose behalf they are acting.
  - Any work that the supervisor performs or changes will be escalated to their manager for secondary approval.

#### Inappropriate User Access

 Cancel terminated employee's access, and restrict users' access to the systems based on work assignments.

#### Department Response: AGREE

When an employee leaves the department, their network ID and application access is disabled. Although employee information is retained for audit trail purposes, it cannot be used to access the system. To improve the system access restriction, Administrative Services will establish new procedures to provide an immediate update of an employee's work status, including termination, relocation, and reassignment.

The department will review all User authority for Secured Data Entry and create a procedure for an annual review of all users and access levels by October 2013. This will ensure that any staff that have terminated employment with the Assessor's Office do not remain in the system.

 Separate the duties of initiating and processing decline-in-value reviews, and the duties of programming and implementing system changes.

#### Department Response:

PARTIALLY AGREE

This recommendation is in two parts:

- The department has a need for any staff to be able to initiate DIV reviews because of
  public service interactions. In order to ensure that the individual who initiated the review
  is not the same individual who processes the review, the department will develop an audit
  report that will identify any parcel that meets this condition and review the processing.
- 2. The County Fiscal Manual provides for the ability to program and implement systems changes if no alternative exists and if an appropriate policy and log are developed. This is to ensure that management may monitor any system changes. Currently, the department has a need for a programmer to access production systems; however, we will develop policies and procedures to govern and log any direct access to production.

systems by development staff. These procedures will be complete by June 30, 2013. Additionally, cross training is being implemented so that the one developer is not the only individual that can perform certain tasks. To the extent possible, the department will separate the responsibilities of developing system changes and the implementation of those changes. Any activity that crosses this separation will be documented, reviewed by supervisory staff, and made available for management review.

The department will begin reviewing data changes to production DIV and PTS to ensure that the data was changed appropriately. Beginning with the 2011 and 2012 roll years, the department will create review lists that contain both the actions that were requested to be performed and the resulting data change. These lists will be provided to the Quality Assurance section for periodic review.

 Determine the accuracy of system changes processed without appropriate review/approval.

#### Department Response: AGREE

The department agrees with this recommendation. In order to ensure that all system changes are reviewed and approved, the department will develop procedures to require ITD Supervisors and Supervising Appraisers to review, validate, and approve all systems changes before they are implemented into production. By June 30, 2013, a form will be created to describe the system change and document all required approvals. The department will develop an Application Release Tracking System to log and monitor all system changes.

The department will begin reviewing data changes to production DIV and PTS to ensure that the data was changed appropriately. Beginning with the 2011 and 2012 roll years, the department will create review lists that contain both the actions that were requested to be performed and the resulting data changes. These lists will be provided to the Quality Assurance unit to review and ensure the values are reflected on the assessment roll. Technical staff indicates that the effort required to retrace and validate every change that has been made to the systems would be time prohibitive. No inappropriate data changes have been identified, but, as indicated, tighter controls, approvals and reporting will enable management to track and monitor any changes made in the future.

#### **Access Control Procedures**

 Establish policies and procedures to create, limit, and periodically review system access roles, and document approval for access assignments and changes.

#### Department Response: AGREE

Every system in the department will be reviewed and policies will be established among ITD, Human Resources, Management Services, and operations management to ensure that termination clearance procedures are adhered to. Additionally, the department will perform a review of permissions and account access to our systems beginning 2013. These reviews will be conducted annually and completed by September 30 each year.

Policies and procedures will be developed to ensure that any changes to system access are documented, reviewed, and approved by management.

#### Monitor users with high level access, and ensure all user IDs are assigned to specific individuals.

#### Department Response:

AGREE

The department agrees with this recommendation and will purchase auditing software for monitoring access. In addition, procedures will be developed to eliminate sharing of user IDs on the IBM iSeries. The software will allow for any necessary management reporting.

This software will require an upgrade of department hardware because enhanced auditing logs need greater capacity and processing. Relevant software will be reviewed and a recommendation will be made within six (6) months.

To better monitor users with high level access, the department will create unique individual access IDs to the Secured Data Entry (SDE) system.

This recommendation only applies to the SDE system. DIV and PTS are accessed through unique network logins and are in compliance.

#### Ensure passwords in the Secured Data Entry System are case-sensitive.

#### Department Response:

**AGREE** 

The department agrees with this recommendation and has implemented it in the Secured Data Entry System. Passwords are now case sensitive.

#### Transfer Appraisal Processing Delays

#### 18. Complete the six pending transfer appraisals noted in our review.

#### Department Response:

AGREE

The six pending transfer appraisals were referred to the appropriate regions for review and, with the exception of one parcel, have since been valued and enrolled. The remaining unvalued transfer is for a complex property involving multiple parcels, a change-in-use, major renovation, and "supergraphics" on two sides of the building. Additional information has been requested from the buyer, but has not been provided. Although it is our preference to complete an appraisal with the property-specific information deemed necessary to ensure fair market value, the valuation of this property will use the information available and be enrolled by roll closure.

It should be noted that the 120-day transfer valuation guideline was created and intended for District Appraisals which values less complex properties such as single-family homes, condominiums, and smaller commercial/industrial properties. Of the six pending transfer appraisals, five were for larger and/or complex properties that fell within the responsibility of the Assessor's Major Real Property Division. These complex properties are typically allowed more time for transfer enrollment due to the more difficult nature of the assignment and the property-specific information needed to determine fair market value. In the case of these Major Real Property valuations, the enrollment of a transfer within the assessment year is the main objective. However, the valuation of these properties was excessive and more care will be taken to ensure more timely assessment and conformance with the Major Real Property Transfer Guidelines.

The remaining transfer appraisal was the responsibility of District Appraisals and has now been enrolled. According to appraiser comments on PTS, the transfer was delayed by parcel change processing.

 Develop monitoring reports to expedite untimely transfer appraisals, and evaluate if staff need to be re-assigned to address backlogs.

#### Department Response:

AGREE

This recommendation has been implemented in the Paperless Transfer System (PTS). Policy and Operating Practice Manual Section 1500-04 has been created to provide District Appraisal guidelines for timely transfer valuation and enrollment. An On-Line Performance Audit Report has been developed to track unvalued transfers remaining in PTS for over 120 days, and appropriate higher level management approval will be required to exceed specified time limits. A policy for Major Appraisals has also been documented and will be included in the Policy and Operating Practice Manual.

The evaluation of staffing needs is an ongoing activity that the department performs to ensure that workloads are balanced.

#### Standards and Procedures

 Assessor's management develop or update policy and procedure for the areas noted in our review.

#### Department Response:

AGREE

The department agrees with this recommendation and, in coordination with the Appraisal Standards section, will focus on updating policy and procedure in the following areas:

- 1) Appraisal documentation requirements
- 2) Monitoring work not yet completed
- 3) Exceptions processing
- 4) Testing and documenting System changes.

The Quality Assurance section will periodically review activities associated with each policy change.

#### Secured System Replacement

 Assessor's management develop a plan, including timeframes and milestones to replace their Secured Property Tax Systems.

### Department Response:

AGREE

The department agrees with this recommendation. The deficiencies cited in this audit underscore the importance of a new system solution.

A team of managers and subject matter experts is researching available options. A plan to replace the legacy Secured and Unsecured Property Tax Systems will be completed by December 2013.

As documented in the "100 Day Report" dated October 4, 2012, the replacement of existing systems with an integrated solution is a strategic priority in the department's 3-5 year strategic plan for information technology. The initiatives underway to move the department away from systems that no longer provide the required functionality and reliability and toward an enterprise solution are cited in the report.

#### REPORT FINDINGS

#### **AUDIT SUMMARY**

The Quality Assurance Section completed a review of the regional responses to the exceptions generated by the Auditor-Controller's audit of the Secured Property Tax System. The report originally was sent to the corresponding regions for explanation of enrollment of conflicting or non-supported values generated from the Decline-in-Value (DIV) system, Paperless Transfer System (PTS) or Mills Act Valuation entered through the AS400 System. There were 47 parcels listed on the exceptions report with 28 DIV inquiries, 8 PTS inquiries, and 11 Mills Act inquiries.

#### **QUALITY ASSURANCE AUDIT**

The purpose of the Quality Assurance audit was to verify the regional responses to the original Auditor's exceptions report. In order to accomplish this, 22 files were physically inspected in the district offices by Quality Assurance staff, while the remaining were verified through DIV, PTS, or PDB data. In some instances, the appraisals were only available through the District share drives so various district supervisors searched for and printed required documentation upon request.

#### DECLINE-IN-VALUE RESPONSES:

Twenty three of the twenty-eight regional responses were confirmed to be feasible and proper with the following summaries:

- Five DIV generated values had been overridden by supervisors due to supervisor judgment in reweighting of comparable sales or use of additional comparable sales placed in DIV notes section. Override final values were all within the market range indicated by comparable sales.
- 2) Nine appraisals were overridden by appraisers from the DIV calculated values due to reported appraiser judgment re-weighting or rounding of final values. Override final values were all within the market range indicated by comparable sales.
- Six appraisals had comparable sales placed in the notes and did not use the DIV system to generate market value.
- One appraisal was generated and stored in the share drive of the district office without a note in DIV to reference the external appraisal.
- One appraisal's DIV generated value was rounded by appraiser and allocated among three parcels.
- 6) One DIV calculated value was overridden by appraiser attempting to round final value but mistakenly increased the value by \$100k. Contact was made by Quality Assurance to the approving supervisor who has since corrected the mistake on PDB.

Five of the twenty-eight DIV inquiry responses required further explanation or regional follow-up which has since been provided.

#### PAPERLESS TRANSFERS RESPONSES:

Five of the eight regional responses were confirmed to be feasible and proper with the following summaries:

- Four appraisals valued through PTS had the value overridden by appraiser due to rounding of final enrolled value or re-weighting of the comparable sales without documenting changes. The enrolled values were all within the market range of the comparable sales.
- One Major Appraisals transfer was enrolled through PTS using an external appraisal which was in the share drive and parcel jacket. Appraiser did leave a note in DIV to see the appraisal in the parcel jacket.

Three of the eight PTS inquiry responses required further explanation or follow-up which has since been provided.

#### MILLS ACT RESPONSES:

There were eleven Mills Act valuations listed on the Auditor-Controller's report for lack of income information used in the appraisal. All eleven parcels had a hard copy appraisal in the parcel jackets. Upon inspection, the Mills Act valuations appear to follow all the guidelines for determining the trended base value, using comparable sales to determine the current fair market value, and utilized all of the components needed to complete the income approach to arrive at the Mills Act value.

However, the income approach did not reference the source of the income used, and some of the reported expenses did not match those used in the appraisals.

Because the majority of Mills Act properties are owner-occupied single-family residences, and an income approach is required, a rental survey is typically done by investigating similar type properties listed in the MLS and other data sources. Appraiser judgment is utilized in applying this survey information to the subject properties. For the valuations cited, the income searches were not saved and a hard copy was not retained in the file. In determining appropriate expense levels, the reported expenses were analyzed for reasonableness and larger expenses for capital improvements were amortized over the life of the property. The District will retain appropriate supporting data in a designated area/folder in the future.